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**KENT ECONOMIC
AND DEVELOPMENT
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KEDI ECONOMIC SURVEY

November 1, 1985

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SOURCES:

U.S.Department of Commerce first estimates of 1985:3 National Income and Product data, October 18, 1985.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, October 1985.

The lastest available data on prices, employment, industrial, and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Real GNP up 3.3% in 1985:3. **KEDI** forecasts a strong US economy in 1986 with moderate growth continuing into following years.

Prices

Inflation keeps low profile. CPI will be on good behavior all through next year. Do not look for further drops in PPI.

Employment & Labor

372,000 new jobs for September putting the total work force at record 107.5 million.

Housing

Housing starts stop. Off 9.3% from September, October data reflects **KEDI** forecast of many months that construction activity does not reflect consumer demand.

Automobiles

Domestic auto sales drop as incentives expire in October. Japanese automakers grin and sip saki as sales soar.

Budgets

Can the US afford a balanced federal budget? **KEDI** says no! State and local governments must spend more as the federal government digs out of debt.

Income

Average weekly earnings gains continue to outpace increases in CPI while corporate profits turn in a good performance.

Money & Credit

International Group of Five maintains commitment to bring down the dollar's international value. A weakening of the dollar will eventually rectify the balance of trade between the US and the world.

Interest Rates, Yields & Securities Prices

KEDI disagrees with the Fed's policy of pushing interest rates lower through the balance of this year and next.

0.02 OVERVIEW

A NEW LOOK

This month's issue has a new look!

KEDI is constantly striving to bring you meaningful forecasts, so we have changed the layout to reflect current, up-to-date changes occuring in the economy.

By calculating changes from last month's forecast, we will be including percent changes occuring in the 1986 data. Each detailed forecast contains a listing of changes in forecast data from the previous month. These changes are ranked in descending order with the highest positive percentage change at the top of the list in the six categories analyzed on each page. The bottom, or sixth category, reflects the largest negative percentage change of the group with intermediate positive and negative changes ranked in between.

We believe the sensitive changes in these barometers of economic activity are important considerations for planning and decision making activities within subscriber organizations.

Our new look, with state-of-the-art forecasting methods, is another example of **KEDIs** dedication to providing subscribers with pertinent, meaningful data in an easy to understand format.

We welcome your comments.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

Indicator	Unit	1985	1988	1989	1990
Gross national product, p.5	bil. 72$	1679.9	1864.3	1925.8	1966.2
	% change	2.5	3.8	3.3	2.1
Index of indust. prod., p.5	1967=100	124.8	144.0	150.4	156.5
	% change	2.5	5.2	4.5	4.0
Capacity utiliz., p.5	%	80.3	83.0	82.1	81.3
	% change	-.6	1.0	-1.1	-1.0
Unemployment rate, p. 5	%	7.2	6.6	6.7	6.8
	% change	-3.6	-4.0	1.0	1.1
Private housing starts, p.5	mil.units	1.689	2.033	1.949	1.910
	% change	-3.4	9.8	-4.1	-2.0
Car sales, p.5	mil.units	10.7	12.2	12.1	12.0
	% change	2.4	10.2	-.7	-.8
Implicit GNP price def., p.9	1972=100	231.1	261.5	275.9	288.0
	% change	3.5	5.1	5.5	4.4
Consumer Price Index, p.9	1967=100	321.9	367.1	388.0	407.4
	% change	3.5	5.4	5.7	5.0
Prod.Price Index (fin.goods),p.9	1967=100	295.1	349.6	371.0	383.2
	% change	1.3	7.1	6.1	3.3
Federal Deficit p. 19	bil. $	-193.2	-149.2	-132.2	-121.7
	% change	9.9	-7.9	-11.4	-7.9
Personal Income p. 21	bil. $	3263.6	4127.7	4453.8	4770.0
	% change	8.4	8.9	7.9	7.1
Prime Rate p. 25	%	10.0	8.4	9.2	10.0
	% change	-17.2	-8.6	9.4	8.1
Mortgage Rate p. 25	%	12.8	11.0	11.4	10.7
	% change	-7.4	-2.8	3.2	-6.1
Currency+demand deposits, p. 23	bil. $	591.6	694.8	735.8	769.7
	% change	8.6	7.0	5.9	4.6
Commercial+ind. loans, p. 23	bil. $	488.1	573.0	590.7	603.1
	% change	3.7	5.4	3.1	2.1

Numbers in "% change" rows show percent changes over the previous year.

0.03 ASSUMPTIONS

Assumptions from last issue remain unchanged.

	Last Update
1. In 1985, the **weighted price of oil** will be $26 per barrel; in 1986 it will level off; in 1987 it will go up to $28 per barrel; in 1988, to $30 per barrel; and in 1989, $31 per barrel.	Oct. 1985
2. It is expected that the **Mid East problems** will continue throughout this year and the next year and more normal conditions will resume not earlier than in 1987 or 1988.	Oct. 1985
3. **A longer-lasting relaxation in monetary and credit policies** will start in the middle of 1986. It will continue in 1987 and through most of 1988.	Oct. 1985
4. In 1985, assume **U.S. record crops,** and in the U.S.S.R. and China, average crops will take place. In 1986 and 1987 good crops in all main producing countries are anticipated.	Jan. 1984
5. **Foreign trade with China** will gain momentum in 1985 and will expand in the following years.	Jan. 1984
6. **Average rates of growth** in 1984-1989 in the major industrial countries are anticipated: West Germany 3.0%; Italy 2.6%; Great Britain 2.6%; France 2.4%; Japan 2.7%.	Feb. 1985
7. **No drastic changes in international relationships** are anticipated.	**Permanent Assumption**

0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the November 1985 **KEDI** forecast. In 1985 and 1986 moderate growth is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988. Forecast data for 1985-1990 do not point to recession or major downturn. Financial outlook is optimistic. Federal budget deficits will keep declining in 1986 and the following years. The export-import gap will start closing to a more acceptable level in 1986.

TABLE 1.11

SELECTED INDICATORS OF REAL GROWTH

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod.	Unemployment rate	Capacity util'n rate	Private housing starts	Auto sales
Unit	$72 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1984*	1639.3	121.8	7.52	80.8	1.749	10.4
1985:1*	1663.5	123.8	7.32	80.5	1.793	10.9
2*	1671.3	124.4	7.31	80.4	1.769	10.9
3	1684.8	124.5	7.21	80.1	1.641	10.6
4	1700.1	126.7	7.16	80.3	1.550	10.2
YEAR	1679.9	124.8	7.25	80.3	1.689	10.7
% change from '84	2.5	2.5	-3.59	-.6	-3.4	2.4
1986:1	1711.6	127.3	7.19	80.4	1.548	9.9
2	1723.9	128.6	7.02	80.9	1.673	10.4
3	1736.4	130.0	6.98	81.1	1.741	10.2
4	1750.5	132.0	7.01	81.3	1.659	10.5
YEAR	1730.6	129.5	7.05	80.9	1.654	10.2
% change from '85	3.0	3.7	-2.76	.7	-2.0	-3.8
1987:1	1767.4	134.2	7.08	81.7	1.743	10.4
2	1786.5	135.3	6.98	81.8	1.900	11.1
3	1807.1	137.9	6.86	82.5	1.967	11.1
4	1823.1	140.0	6.76	82.7	1.803	11.8
YEAR	1796.0	136.8	6.92	82.2	1.851	11.1
% change from '86	3.8	5.7	-1.84	1.5	11.9	8.3

*Historical data.

Note: Index of industrial production and Capacity utilization rate reflect recent revisions made by the Federal Reserve System.

1986
FORECAST
DATA

Percent Change
from
October 1985
Forecast

+ 5.08%	Net exports
- .07%	GNP
- .11%	Personal cons. expend.
- .12%	State local purchases
- .13%	Federal government purchases
- 1.69%	Gross private domestic investment

1.00 DETAILED FORECASTS

1.10 REAL GROWTH

See Tables 1.11 and 1.12
Pages 5 and 7.

* **Real GNP up 3.3% in 1985:3.** Forecast for 1985:4 does not indicate as much growth. Third quarter surge was spurred by strong car sales which will decline in the closing quarter of this year.

* **KEDI** forecasts a strong US economy in 1986 with moderate growth continuing into following years.

* **Business Council** estimates too bleak in 2.1% growth in 1985 and 2.5% in 1986. They predict a deteriorating trade sector based on overvaluation of the dollar.

KEDI disagrees:

- Manufacturing stabilizing
- Agriculture with slow growth
- Service sector expanding
- Orders for durables will grow 5% in 1986 over 1985.
- Retail sales will increase 4% in 1986 over 1985.

* **Update from last month.** Improvement in foreign trade segment resulting from downward adjustments in international value of US dollar. **Do not** expect drastic declines in the international value of the dollar in 1986.

TABLE 1.12

REAL GNP

Quarterly data are seasonally adjusted at annual rates.

	-----------Gross National Product---------------					
INDICATOR	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$72 bil.	$72 bil.	$72 bil.	$72 bil.	$72 bil.	$72 bil.
Year & Qtr.						
1984*	1639.3	1062.4	289.7	-5.0	122.5	179.6
1985:1*	1663.5	1089.1	292.1	-28.4	129.8	180.9
2*	1671.3	1102.0	289.5	-33.8	129.7	183.9
3	1684.8	1115.2	278.1	-34.0	139.4	186.1
4	1700.1	1121.4	285.4	-30.4	135.7	188.0
YEAR	1679.9	1106.9	286.3	-31.6	133.7	184.7
% change from '84	2.5	4.2	-1.2	533.0	9.1	2.9
1986:1	1711.6	1118.7	297.4	-27.8	133.5	189.8
2	1723.9	1124.1	300.7	-26.4	133.9	191.6
3	1736.4	1131.0	302.7	-25.7	135.2	193.2
4	1750.5	1131.6	309.6	-23.5	137.1	195.7
YEAR	1730.6	1126.3	302.6	-25.9	134.9	192.6
% change from '85	3.0	1.8	5.7	-18.3	1.0	4.2
1987:1	1767.4	1141.4	313.1	-24.1	138.9	198.1
2	1786.5	1149.0	320.0	-22.3	141.0	198.8
3	1807.1	1155.8	325.4	-19.1	143.1	201.9
4	1823.1	1159.1	331.1	-18.0	146.1	204.8
YEAR	1796.0	1151.3	322.4	-20.9	142.3	200.9
% change from '86	3.8	2.2	6.5	-19.2	5.4	4.3

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Table 1.21 - page 9

1986
FORECAST
DATA

Percent Change
from
October 1985
Forecast

+ .87%	State local purchases
+ .85%	Federal government purchases
.00%	Personal cons. expend.
- .52%	Consumer price index
- 1.67%	GNP
- 8.79%	Producer price index

* **Inflation keeps low profile.** Dormant for the time being, but certainly not dead. Watchful eyes are needed to keep inflationary pressures in check. Donald Straszheim, chief economist at Merrill Lynch Economics, believes that "inflation is dead in the water." As unpredictable as Humphrey the Whale, inflation needs constant watching and coaxing to keep it on course and out of troubled waters. KEDI forecasts upward inflationary pressures in 1986 growing stronger in 1987.

* **CPI will be on good behavior** for 2 years. 1987 will see upward pressure in CPI after decline in international value of the dollar tapers off. This will happen as wholesale increases push up retail prices.

* **Update from last month.** Do not look for further drops in Producer Price Index. Recent declines caused by autos price cutting which is winding down.

TABLE 1.21

PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

	---Indexes--		*-------Price deflators--------*			
INDICATOR	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967=100	1967=100	1972=100	1972=100	1972=100	1972=100
Year & Qtr.						
1984*	311.1	291.2	223.4	220.4	241.1	251.7
1985:1*	317.4	292.5	229.1	224.7	246.5	261.0
2*	321.2	293.7	230.6	226.2	250.7	264.7
3	323.7	295.9	231.8	226.5	248.9	268.1
4	325.4	298.1	233.0	226.3	251.8	271.3
YEAR	321.9	295.1	231.1	225.9	249.5	266.3
% change from '84	3.5	1.3	3.5	2.5	3.5	5.8
1986:1	327.9	300.5	235.1	230.0	253.9	273.0
2	329.7	306.4	237.4	232.8	255.4	276.1
3	333.2	310.8	240.5	258.7	279.8	276.6
4	336.6	315.8	242.0	238.8	260.1	283.9
YEAR	331.9	308.4	238.8	233.9	262.3	277.4
% change from '85	3.1	4.5	3.3	3.6	5.1	4.2
1987:1	340.5	318.9	244.7	240.8	262.5	285.2
2	345.7	322.4	247.3	244.2	265.4	288.7
3	351.2	328.5	250.1	248.0	268.7	291.4
4	355.7	336.0	253.2	251.3	272.8	295.6
YEAR	348.3	326.4	248.8	246.1	267.4	290.2
% change from '86	4.9	5.9	4.2	5.2	1.9	4.6

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*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 11

1986
FORECAST
DATA

Percent Change
from
October 1985
Forecast

+ 3.15%	Net Exports
+ .76%	Federal government purchases
+ .73%	State local purchases
- .07%	GNP
- .11%	Personal cons. expend.
- .67%	Gross private domestic investment

*** GNP composition to change in the next two years.**

- Slower Personal Consumption Expenditures resulting as consumers approach upper limits of short-term debt. Personal savings are suffering from recent spending sprees as low interest rates keep the urge to spend alive.

- Higher inventories. The lowest in the last decade, inventory/sales ratios will result in higher inventories as manufacturing is expected to replenish its stores.

- Decrease in foreign trade deficit will be slight in 1986 and more significant in 1987 as moderate growth decreases demand for imports. Exports will be up stimulated by international value of the dollar resulting in a lower trade deficit.

*** Update from last month.** Forecast data for nominal GNP reduced slightly from October because of lower forecast data for prices and price deflators.

TABLE 1.22

NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

	Gross National Product					
INDICATOR	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	3662.2	2341.8	637.9	-64.2	295.3	452.1
1985:1*	3811.1	2446.7	646.8	-74.5	320.0	455.3
2*	3854.0	2493.0	643.2	-94.0	325.2	486.8
3	3905.4	2525.9	622.8	-89.2	347.0	498.9
4	3961.2	2537.9	655.8	-84.2	341.7	510.0
YEAR	3882.7	2548.0	642.1	-85.5	333.5	487.8
% change from '84	6.0	8.8	.7	33.1	12.9	7.9
1986:1	4024.0	2572.8	669.7	-75.6	339.0	518.2
2	4092.5	2617.5	676.2	-72.1	342.0	529.0
3	4176.0	2925.9	682.4	-67.8	378.3	534.4
4	4236.2	2702.2	688.1	-66.3	356.6	555.6
YEAR	4131.8	2721.4	679.1	-70.4	354.0	534.3
% change from '85	6.4	6.8	5.8	-17.6	6.1	9.5
1987:1	4324.8	2748.7	709.2	-62.7	364.6	565.0
2	4418.0	2805.9	718.5	-54.5	374.2	573.9
3	4519.6	2866.1	730.8	-50.2	384.5	588.3
4	4616.1	2913.3	751.2	-52.4	398.6	605.4
YEAR	4469.0	2938.7	727.4	-55.0	380.5	583.2
% change from '86	8.2	8.0	7.1	-22.0	7.5	9.1

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 13

1986 FORECAST DATA

Percent Change from October 1985 Forecast

+	.43%	Unemployment rate
+	.01%	Population
	.00%	Agriculture
-	.59%	Civilian labor force
-	.60%	Total employed
-	.62%	Non-agric.

* **Labor Department figures for** September reflects 372,000 new jobs putting the total work force at a record 107.5 million.
* **Jobless rate edged up a tenth** of a point to 7.1% causing no reason for alarm as new jobs continue to increase.
* **Steady growth in new jobs** lead by the service sector, construction, health and business services.
* **Joblessness among blacks** continues to increase.
* **Adult males employed at an** unchanged rate.
* Manufacturing lost 111,000 jobs in September. Look for this to level off as the import-export gap narrows and domestic factories produce more.
* **Update from last month.** There is no need for panic in the 7.1% unemployment rate as real data reflects a steady increase in new jobs as changes in the labor force composition continues.

TABLE 1.30

EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------* Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1984*	237.4	113.5	105.0	3.4	101.6	7.52
1985:1*	239.8	115.2	106.8	3.4	103.4	7.30
2*	240.9	115.2	106.8	3.4	103.4	7.31
3	242.3	115.3	107.0	3.4	103.6	7.21
4	243.7	115.7	107.4	3.4	104.0	7.16
YEAR	241.7	115.3	107.0	3.4	103.6	7.25
% change from '84	1.8	1.6	1.7	0.0	1.7	-3.59
1986:1	244.5	116.3	107.9	3.4	104.5	7.19
2	245.5	116.3	108.1	3.4	104.7	7.02
3	246.4	117.7	109.5	3.4	106.1	6.98
4	247.7	118.1	109.8	3.4	106.4	7.01
YEAR	246.0	117.1	108.8	3.4	105.4	7.05
% change from '85	1.8	1.5	1.6	0.0	1.6	-2.76
1987:1	248.6	119.0	110.6	3.4	107.2	7.08
2	249.3	118.7	110.4	3.4	107.0	6.98
3	250.4	120.3	112.0	3.4	108.6	6.86
4	252.3	121.2	113.0	3.4	109.6	6.76
YEAR	250.2	119.8	111.5	3.4	108.1	6.92
% change from '86	1.7	2.3	2.3	0.0	2.3	-1.84

*Historical data.

1.41 HOUSING

See Table 1.41 - page 15

1986 FORECAST DATA

Percent Change from October 1985 Forecast

+	.56%	Multi-family housing starts
+	.39%	Permits authorized
+	.07%	1-Family unit price new
+	.03%	1-Family unit price existing
	.00%	Single family housing starts
-	1.15%	Multi-family housing starts

* **Housing starts stop.**

Off 9.3% from September, October data reflects KEDIs forecast of many months that actual housing construction does not reflect demand but merely the optimistism of builders. Now it appears that builders have removed their rose colored glasses and realize that mortgage rates have to go up soon. Even the too-low mortgage rates prevalent this year has not created the desired buying boom anticipated by many builders.

* **KEDI HOUSING FORECAST:**

1985 weaker than 1984
1986 weaker than 1985
1987 rebound

* **Changes from last month.**

Apartment housing starts down. KEDI has revised downward the forecast of Government subsidies in multi-family housing.

TABLE 1.41

HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Single family housing starts	Multi-family housing starts	Mobile home ship-ments	Permits author-ized	1-Fam. unit price new**	1-Fam. unit price exist**
Unit	mil.	mil.	mil.	mil.	tho. $	tho. $
Year & Qtr.						
1984*	1.084	.665	.298	1.679	97.0	87.0
1985:1*	1.121	.674	.291	1.709	98.5	87.3
2*	1.076	.693	.285	1.731	102.0	90.4
3	1.030	.611	.273	1.683	104.6	95.2
4	.961	.589	.269	1.484	104.9	95.3
YEAR	1.047	.642	.279	1.652	102.5	92.0
% change from '84	-3.4	-3.5	-6.2	-1.6	5.7	5.8
1986:1	.910	.638	.245	1.481	105.9	95.5
2	1.024	.649	.248	1.544	107.4	96.4
3	1.116	.625	.273	1.596	107.5	97.5
4	1.077	.582	.270	1.627	108.7	99.1
YEAR	1.031	.623	.259	1.562	107.4	97.1
% change from '85	-1.5	-2.8	-7.3	-5.4	4.8	5.5
1987:1	1.103	.640	.264	1.615	109.8	100.6
2	1.218	.674	.298	1.724	112.8	102.9
3	1.282	.685	.313	1.895	117.6	104.3
4	1.141	.662	.297	1.843	119.0	105.7
YEAR	1.186	.665	.293	1.769	114.8	103.4
% change from '86	15.0	6.7	13.1	13.3	6.9	6.4

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 17

1986
FORECAST
DATA

Percent Change
from
October 1985
Forecast

+	.97%	Factory shipments
+	.89%	Imports
	.00%	Dealer car inventory
	.00%	Total light truck sales
-	.25%	Total car sales
-	.68%	Car sales domestic

*** Auto sales drop as incentives expire in October.**

*** Japanese sales show sharp** gains in third week of October against declines for Detroits big three.

+	47.9%	Honda
+	44.8%	Volkswagen
+	1.4%	Chrysler
-	17.0%	GM
-	32.8%	Ford

Third week October sales, seasonally adjusted at 5.5 million, off from expected trend of 11 million. Seasonally adjusted rate had reached as high 14 million in the heat of the **rebate war.**

Detroit-watchers wonder how long before GM reinstates incentives to bolster sagging sales.

*** Changes from last month.** Slight increase in forecast data for sales of Japanese cars in 1986 and 1987. No change for light trucks.

TABLE 1.42

AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1984*	10.4	8.0	2.4	1.4	8.0	3.3
1985:1*	10.9	8.4	2.5	1.6	8.3	3.7
2*	10.9	8.2	2.7	1.8	8.3	3.5
3	10.6	7.9	2.7	1.2	8.2	3.3
4	10.2	7.6	2.6	1.6	7.7	3.4
YEAR	10.7	8.0	2.6	1.6	8.1	3.5
% change from '84	2.4	-7.0	9.4	14.3	1.6	5.3
1986:1	9.9	7.2	2.7	1.7	7.5	3.4
2	10.4	7.4	2.9	1.7	8.0	3.5
3	10.2	7.2	2.9	1.9	7.7	3.7
4	10.5	7.7	2.8	1.7	7.9	3.8
YEAR	10.2	7.4	2.8	1.7	7.8	3.6
% change from '85	-3.8	-11.4	7.6	6.2	-4.3	3.6
1987:1	10.4	7.6	2.8	1.7	7.9	3.5
2	11.1	8.1	3.0	1.9	8.3	3.7
3	11.1	8.0	3.1	1.8	8.1	3.9
4	11.8	8.9	2.9	1.8	8.4	4.0
YEAR	11.1	8.1	3.0	1.8	8.2	3.8
% change from '86	8.3	3.9	4.4	5.9	5.1	4.9

---

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 19

1986 FORECAST DATA

Percent Change from October 1985 Forecast

+ .13%	Corp. profits tax accru.
- .15%	Surplus/ deficit
- .25%	State local income taxes
- .29%	Federal income taxes
- .65%	State local surplus/ deficit
- 2.36%	State local corp. tax accru.

* **Can the US afford a balanced federal budget? KEDI** agrees that the President should have to power to cut spending if Congress fails to meet budget reduction targets.

KEDI questions the wisdom in trying to bring the federal deficit to zero. What should be balanced is the entire government sector: federal + state and local budgets. With surpluses of $50 billion, state and local governments should reach the $80-100 billion range by 1991. If the federal deficit is at **zero** by 1991, the government sector will show a huge surplus approaching $100 billion. That situation may stimulate a **recession**, create **unemployment**, and **reduce** output. **KEDI** believes the best solution to the government deficit is to continue to shift more responsibilities back to the state houses, as Reagan is doing. This reduces the federal deficit and causes state and local governments to spend more. This policy deserves further serious consideration.

TABLE 1.50

FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

	-----FEDERAL----------			*---STATE AND LOCAL----*		
INDICATOR	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	315.0	70.9	-175.7	120.3	19.1	53.0
1985:1*	362.2	67.4	-165.1	126.8	17.9	53.7
2*	318.3	66.1	-210.1	129.9	17.6	50.3
3	354.6	65.8	-201.0	132.0	18.8	52.3
4	362.3	70.4	-196.4	135.7	19.9	53.7
YEAR	349.4	67.4	-193.2	131.1	18.6	52.5
% change from '84	10.9	-4.9	9.9	9.0	-2.9	-.9
1986:1	375.1	74.8	-188.0	137.1	21.0	55.0
2	379.1	76.4	-182.9	139.0	21.4	55.9
3	384.7	80.4	-175.9	143.2	22.0	58.7
4	392.3	81.2	-175.3	148.5	22.3	59.3
YEAR	382.8	78.2	-180.5	141.9	21.7	57.2
% change from '85	9.6	16.0	-6.5	8.3	16.8	9.0
1987:1	402.3	82.7	-170.6	150.1	23.0	60.1
2	412.5	86.7	-167.2	152.6	23.9	62.7
3	420.4	88.9	-159.7	155.3	25.2	64.3
4	430.7	91.3	-150.4	158.2	26.0	67.6
YEAR	416.5	87.4	-162.0	154.1	24.5	63.7
% change from '86	8.8	11.8	-10.3	8.5	13.1	11.3

*Historical data.

1.60 INCOME

See Table 1.60 - page 21

1986 FORECAST DATA

Percent Change from October 1985 Forecast

+	.41%	Corp. after tax profits
+	.06%	Comp. of empl.
+	.04%	Avg. weekly earnings
+	.01%	Personal disp. Income
-	.04%	Personal income
-	.44%	Personal saving

* **Average weekly earning** gains continue to outpace increases in the Consumer Price Index.

% change over 1985:

1986 CPI	3.1%
1986 Average weekly earnings	4.1%

This indicates that actual wages will continue growing faster than inflation. The Labor Department reports that Americans' average weekly earning, after adjusting for inflation, rose 0.7% in September, the biggest increase since April 1984. Unfortunately the gains stemmed from increases in wages and hours worked and not from increased productivity.

* **Corporate profits** turn in a good performance with forecasts showing healthy increases in 1986 and 1987.

* **Changes from last month.** 1985-87 forecast data for personal income and components remains steady with healthy gains ahead.

TABLE 1.60

INCOME

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1984*	3012.1	2576.9	2173.2	146.3	156.1	368.5
1985:1*	3133.3	2644.3	2272.7	137.0	118.6	374.6
2*	3170.3	2722.1	2305.9	137.4	139.4	378.5
3	3363.2	2876.6	2337.2	140.1	178.4	382.4
4	3387.8	2889.8	2363.5	147.8	140.5	386.3
YEAR	3263.6	2783.2	2319.8	140.6	144.2	380.4
% change from '84	8.4	8.0	6.7	-3.9	-7.6	3.2
1986:1	3401.0	2888.8	2404.9	151.2	149.7	389.5
2	3474.7	2956.6	2463.8	152.9	155.6	392.6
3	3712.9	3185.0	2410.7	161.7	153.2	397.8
4	3602.8	3062.0	2564.6	166.8	156.8	404.4
YEAR	3547.9	3023.1	2461.0	158.2	153.8	396.1
% change from '85	8.7	8.6	6.1	12.5	6.7	4.1
1987:1	3660.1	3107.7	2618.4	170.3	161.4	409.2
2	3745.3	3180.2	2660.1	173.1	164.6	413.7
3	3831.7	3256.0	2742.0	178.5	168.7	422.1
4	3924.5	3335.6	2810.1	185.2	170.2	426.0
YEAR	3790.4	3219.9	2707.7	176.8	166.2	417.8
% change from '86	6.8	6.5	10.0	11.8	8.1	5.5

*Historical data.

1.70 MONEY AND CREDIT

See Table 1.70 - page 23

**1986
FORECAST
DATA**

Percent Change
from
October 1985
Forecast

+	.45%	Large denom. time deposits
+	.41%	Consumer install. credit
+	.23%	Comm. & industrial loans at banks
+	.21%	Currency & demand deposits
+	.05%	Time deposit adjust.
+	.03%	Mortg. at S & L Assns.

* **International Group of Five** maintains commitment to bring down the dollar's value. A weakening of the dollar will eventually rectify the balance of trade between the US and the world.

* **M1 supply of money eases** downward in October after a continuous climb over the summer. Indications are that the October meeting of the Open Market Committee resulted in agreement to moderate the money growth.

* **Forecast of M1 and M2 money** supply for 1986 is based on assumption that the Fed will tighten the monetary policy. Money supply is growing dangerously fast and the pace cannot continue unchecked indefinitely.

* **Changes from last month.** No significant changes, however, watch for a slowdown in growth of consumer credit; moderate increases in bank loans, and very slow growth in mortgage debt.

TABLE 1.70

MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	545.0	2277.4	460.5	470.7	416.8	555.3
1985:1*	568.1	2416.4	471.6	474.1	423.6	559.3
2*	582.6	2448.2	497.3	478.4	424.2	567.1
3	604.5	2510.9	505.7	483.2	428.1	576.6
4	611.2	2558.1	514.3	488.1	432.7	582.4
YEAR	591.6	2483.4	514.3	488.1	432.7	582.4
% change from '84	8.6	9.0	11.7	3.7	3.8	4.9
1986:1	615.9	2604.9	519.7	491.6	436.0	589.8
2	625.6	2658.7	533.4	496.2	442.5	590.3
3	631.5	2708.8	528.9	513.4	447.8	595.7
4	636.7	2790.5	535.6	515.8	451.3	607.4
YEAR	627.4	2690.7	535.6	515.8	451.3	607.4
% change from '85	6.1	8.3	4.1	5.7	4.3	4.3
1987:1	640.7	2842.8	542.2	520.3	452.7	611.5
2	646.1	2909.9	546.8	524.8	457.8	617.7
3	655.8	2965.3	553.9	530.9	462.6	626.3
4	661.9	3021.9	559.8	543.6	473.4	639.3
YEAR	651.1	2935.0	559.8	543.6	473.4	639.3
% change from '86	3.8	9.1	4.5	5.4	4.9	5.3

*Historical data.
s.a.: seasonally adjusted at annual rates.
n.s.a.: not seasonally adjusted.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 25

1986 FORECAST DATA

Percent Change from October 1985 Forecast

+ 1.75%	Aaa corp. bond rate
+ .97%	20 yr. Govt. bonds yield
+ .74%	Prime rate
+ .61%	S & P's 500 avg
+ .08%	Conv. mortg. rate
- .17%	Treas. bills 3 mo. yield

* **The Fed appears poised to push** interest rates lower through the balance of this year and next.

* **KEDI** takes strong exception with this line of reasoning.

- US interest rates are at parity with other industrialized nations.
- Further declines in interest rates may seriously destabilize the international value of the dollar.

* **Changes from last month.** Data for interest rates and yields have been increased slightly. While **KEDI** disagrees with the Fed's policy of pushing interest rates lower, it is a fact of life we must deal with and forecast accordingly.

TABLE 1.80

INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P's 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1984*	9.52	12.04	13.84	12.65	12.36	160.50
1985:1*	8.18	10.54	13.28	12.06	11.41	177.30
2*	7.52	10.20	12.76	11.63	11.15	183.48
3	7.49	9.68	12.58	11.59	10.72	190.21
4	7.67	9.46	12.63	11.34	10.51	188.65
YEAR	7.71	9.97	12.81	11.66	10.95	184.91
% change from '84	-19.0	-17.2	-7.4	-7.9	-11.4	15.2
1986:1	7.82	9.50	12.60	11.19	10.73	187.56
2	7.57	9.59	12.45	11.08	10.46	185.82
3	7.38	9.48	11.84	10.97	10.14	188.76
4	7.46	9.43	11.51	10.31	10.23	189.34
YEAR	7.56	9.50	12.10	10.89	10.39	187.87
% change from '85	-2.0	-4.7	-5.6	-6.6	-5.1	1.6
1987:1	7.36	9.36	11.27	10.65	10.16	186.74
2	7.10	9.14	11.02	10.31	10.23	192.65
3	6.95	9.10	11.26	10.45	10.67	196.74
4	6.58	9.35	11.74	10.69	10.69	199.62
YEAR	7.00	9.24	11.32	10.53	10.44	193.94
% change from '86	-7.4	-2.8	-6.4	-3.3	.5	3.2

*Historical data.

2.00 THE KENT ECONOMIC FORECASTING SYSTEM

10.00 SCOPE OF ECONOMIC MODELS

Economic models built to forecast a national economy are evaluated by a set of criteria:

- Accuracy
- Forecast horizon
- Frequency of update
- Extent of data base
- Types of equations

MEASURES OF ECONOMIC ACTIVITY

The number of variables in each model provides the basis for determining the depth of detail that a model is capable of reaching. Logically, more variables results in a broader base of model-user data.

In **economic model language** variables are called **INDICATORS** or **MEASURES OF ECONOMIC ACTIVITY.** Such indicators or measures might be:

- Production
- Employment
- Price level
- Exports
- Money Supply
- Consumer Credit
- Gross National Product
- Capacity Utilization
- Housing Starts

Almost every civilized country in the world has an economic model. Records indicate that in post-World War II more than 8000 such models have been constructed. Today the United States has 20 recognized models of the US economy. The table on page 27 shows 12 selected US models whose performance is monitored by the Federal Reserve Bank of Boston. This table is taken from **New England Economic Review,** November/December 1985, pp. 5-8.

Summary Information on Forecasting Organizations Studied

Forecasting Orgn. (Abbreviated Title) contact for information	No. of Macroeconoic Variables Forecasted	Typical Forecast Horizon, Quarters	Frequency of Release per yr.	Data Forecast First Issued
1) American Statistical Assn & Nat'l Bureau of Economic Research Survey of regular forecasts, median, (ASA)	17	5	4	1968
2) Bureau of Economic Analysis, US Commerce Dept, (BEA)	about 900	10 to 12	8	1967
3) Charles R. Nelson Assoc., Inc, Benchmark forecast, (BMARK)	3	4	4	1976
4) Chase Econometrics, (Chase)	about 700	10 to 12	12	1970
5) Data Resources, Inc., (DRI)	about 1000	10 to 12	12	1969
6) Economic Forecasting Project, Georgia State University, (GSU)	300	8	12	1973
7) Kent Economic and Development Institute, (KEDI)	**1699**	**10**	**12**	**1974**
8) Manufacturers Hanover Trust, (MHT)	37	4 to 5	3	1970
9) Research Seminar in Quantitative Economics, University of Michigan, (RSQE)	about 100	8	9	1969
10) Townsend-Greenspan & Co., Inc., (TG)	about 1400	6 to 10	4	1965
11) University of California at LA, School of Business, (UCLA)	about 1000	8 to 12	4	1968
12) Wharton Econometrics Forecasting Assoc., Inc (WEFA)	about 1200	12	12	1963

Note: The Kent Model is recorded as having 1,699 variables forecasted. In the Table (see the heading) there are reported only so-called MACROECONOMIC VARIABLES. The actual number of forecasted variables in the Kent Model is **43,935.**

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the **Residential Structures in 1984** has been selected for comparison. The actual figure is the May 1985 estimate of the U. S. Department of Commerce, (**Survey of Current** Business, May 1985, Table 1.1). Forecast data are in **Business Forecasts 1984** (Federal Reserve Bank of Richmond, Virginia, February 1984). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
(Residential Structures, 1984, bil. $)
Actual figure: 153.9

Forecaster (and page in source)	**Date of Forecast**	**Forecast**	**Accuracy %**
Georgia State University, p. 21	11/83	142.7	-7.3
Manufacturers Hanover Trust Co, p. 23	11/9/83	148.2	-3.7
Research Seminar in Quantitative Economics, Univ.of Michigan, p.24	11/17/83	165.3	+7.4
UCLA Business Forecasting Project, p.26	12/83	151.8	-1.4
Citicorp Information Service, p. 27	12/1/83	156.3	+1.6
Metropolitan Life Insurance Co., p.28	12/1/83	152.0	-1.2
Fidelity Bank, p. 32	12/19/83	148.9	-3.2
Evans Economics, Inc., p. 34	12/22/83	145.5	-5.5
Data Resourses, Inc., p. 36	12/24/83	151.2	-1.8
Kent Economic and Development Institute, p. 39	**1/1/84**	**150.2**	**-2.4**
Lehman Bros, Kuhn Loeb, Inc., p. 40	1/5/85	149.5	-2.9
The Equitable Life Assurance Society, p. 42	1/9/84	155.3	+.9
Morgan Guaranty Trust Co of NY, p. 43	1/12/84	145.1	-5.7
Standard & Poor's Corp, p. 44	1/12/84	150.5	-2.2

4.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth	Gross national product, 1972 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Real GNP	Gross national product, 1972 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal and State Budgets	**Federal govt:**Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt: Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	SCB, Blue pages
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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SOURCES:

U.S.Department of Commerce second estimates of 1985:3 National Income and Product data, November 20, 1985.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, November 1985.

The lastest available data on prices, employment, industrial, and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

GNP revised up from 3.4% to 4.3% for 1985:3. Reversal of numbers created by Uncle Sam signing lots of checks for swords and plowshares.

Prices

Beware of **INFLATION** warming up when June ´86 comes busting out all over. Export/import gap peaking out in 1985:4.

Employment & Labor

2.4 million new jobs to be created in 1986. Eight out of ten new jobs will be in service sectors.

Housing

Housing permits dropped in October to 1.675 (million units annualized) from September´s 1.804. Existing home sales down with low mortgage rates.

Automobiles

U.S. made auto sales skid in death spiral as Japanese import sales remain strong and growing.

Budgets

Federal deficit peaking out--expect declines from now on. State/local budgets build surpluses to balance out total economy.

Income

Personal income shows good gains along with corporate after-tax profits forecast to incease 14.5% in 1986 over 1985.

Money & Credit

Fed cheap money policy prevails with lots of loose money around. **KEDI** believes Fed will have to thighten in the new year.

Interest Rates, Yields & Securities Prices

Investors loosing interest in interest as shift to stocks sends Dow Jones climbing by leaps and bounds.

0.02 OVERVIEW

EXPANSION SUSTAINED IN 1986

* Consumer spending in 1986 will be as robust as 1985. Consumers have already piled up too much debt.

* Housing and autos--two traditional pillars of the U.S. economy--will be flat with no driving force in the economy.

* Defense spending will remain strong.

* Balance of trade to improve as dollar continues downward abroad.

* Manufacturing sees light at the end of the tunnel.

* Expansion to continue with a moderate, healthy pace.

1986 GNP Growth Forecasts

Chase Econometrics	2.5-3.0%
Blue Chip Indicators	3.1%
Administration	4.0%
KEDI	3.4%
Beryl Sprinkel Chairman, President´s Council of Economic Advisors	5-6%

TABLE 0.00
KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

Indicator	Unit	1985	1988	1989	1990
Gross national product, p.5	bil. 72$	1682.0	1876.8	1938.7	1979.5
	% change	2.6	4.0	3.3	2.1
Index of indust. prod., p.5	1967=100	124.8	144.6	151.1	157.0
	% change	2.4	5.6	4.5	3.9
Capacity utiliz., p.5	%	80.4	82.9	82.0	81.2
	% change	-.5	1.0	-1.1	-1.0
Unemployment rate, p. 5	%	7.3	6.7	6.7	6.8
	% change	-3.5	-3.9	1.0	1.1
Private housing starts, p.5	mil.units	1.692	2.017	1.936	1.894
	% change	-3.3	9.8	-4.0	-2.2
Car sales, p.5	mil.units	11.1	12.2	12.1	12.0
	% change	6.3	10.1	-.7	-.8
Implicit GNP price def., p.9	1972=100	232.6	267.0	281.7	294.1
	% change	4.1	5.1	5.5	4.4
Consumer Price Index, p.9	1967=100	322.2	368.1	389.1	408.2
	% change	3.6	5.5	5.7	4.9
Prod.Price Index (fin.goods),p.9	1967=100	294.9	349.7	370.7	382.9
	% change	1.0	7.1	6.0	3.3
Federal Deficit p. 19	bil. $	-193.2	-152.8	-135.6	-124.9
	% change	10.0	-7.8	-11.3	-7.9
Personal Income p. 21	bil. $	3203.5	4088.5	4407.4	4720.3
	% change	6.4	8.9	7.8	7.1
Prime Rate p. 25	%	10.0	8.5	9.3	10.0
	% change	-17.2	-8.2	9.4	8.3
Mortgage Rate p. 25	%	12.8	11.0	11.3	10.7
	% change	-7.5	-2.9	3.2	-5.7
Currency+demand deposits, p. 23	bil. $	591.9	699.2	740.5	776.0
	% change	8.6	7.1	5.9	4.8
Commercial+ind. loans, p. 23	bil. $	488.6	575.7	593.0	606.0
	% change	3.8	5.5	3.0	2.2

Numbers in "% change" rows show percent changes over the previous year.

0.03 ASSUMPTIONS

Assumptions from last issue remain unchanged.

	Last Update
1. In 1985, the **weighted price of oil** will be $26 per barrel; in 1986 it will level off; in 1987 it will go up to $28 per barrel; in 1988, to $30 per barrel; and in 1989, $31 per barrel.	Oct. 1985
2. It is expected that the **Mid East problems** will continue throughout this year and the next year and more normal conditions will resume not earlier than in 1987 or 1988.	Oct. 1985
3. **A longer-lasting relaxation in monetary and credit policies** will start in the middle of 1986. It will continue in 1987 and through most of 1988.	Oct. 1985
4. In 1985, assume **U.S. record crops,** and in the U.S.S.R. and China, average crops will take place. In 1986 and 1987 good crops in all main producing countries are anticipated.	Jan. 1984
5. **Foreign trade with China** will gain momentum in 1985 and will expand in the following years.	Jan. 1984
6. **Average rates of growth** in 1984-1989 in the major industrial countries are anticipated: West Germany 3.0%; Italy 2.6%; Great Britain 2.6%; France 2.4%; Japan 2.7%.	Feb. 1985
7. **No drastic changes in international relationships** are anticipated.	**Permanent Assumption**

0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the December 1985 **KEDI** forecast. In 1986 moderate growth is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988. Forecast data for 1985-1990 do not point to recession or major downturn. Financial outlook is optimistic. Federal budget deficits will keep declining in 1986 and the following years. The export-import gap will start closing to a more acceptable level in 1986.

TABLE 1.11

SELECTED INDICATORS OF REAL GROWTH

Quarterly data are seasonally adjusted at annual rates

INDICATOR	GNP	Index of ind. prod.	Unemployment rate	Capacity util'n rate	Private housing starts	Auto sales
Unit	$72 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1984*	1639.3	121.8	7.52	80.8	1.750	10.4
1985:1*	1663.5	123.8	7.32	80.5	1.793	10.9
2*	1671.3	124.4	7.31	80.4	1.769	10.9
3	1688.9	124.7	7.21	80.3	1.641	12.4
4	1704.3	126.1	7.19	80.3	1.561	10.0
YEAR	1682.0	124.8	7.26	80.4	1.692	11.1
% change from '84	2.6	2.4	-3.49	-.5	-3.3	6.3
1986:1	1719.8	127.1	7.15	80.4	1.550	9.9
2	1733.2	128.6	7.03	80.7	1.677	10.3
3	1746.1	130.1	6.98	80.9	1.746	10.1
4	1760.7	132.1	7.01	81.2	1.666	10.2
YEAR	1740.0	129.5	7.04	80.8	1.656	10.1
% change from '85	3.4	3.8	-2.96	.5	-2.1	-8.4
1987:1	1775.2	134.2	7.07	81.6	1.719	10.4
2	1793.7	135.4	6.98	81.7	1.900	11.0
3	1813.5	137.9	6.88	82.4	1.954	11.1
4	1836.1	140.1	6.79	82.6	1.794	11.8
YEAR	1804.6	136.9	6.93	82.1	1.837	11.1
% change from '86	3.7	5.7	-1.60	1.6	10.9	9.4

*Historical data.

Note: Index of industrial production and Capacity utilization rate reflect recent revisions made by the Federal Reserve System.

1.00 DETAILED FORECASTS

1.10 REAL GROWTH

See Tables 1.11 and 1.12
Pages 5 and 7.

1986 FORECAST DATA

Percent Change from November 1985 Forecast

+ 8.59%	Net exports
+ 1.17%	Federal government purchases
+ .77%	Personal cons. expend.
+ .54%	GNP
+ .44%	Gross private domestic investment
+ .08%	State local purchases

* **GNP revised up** from 3.4% to 4.3% for 1985:3. Reversal of numbers created by Uncle Sam signing lots of checks. Jump has no economic teeth and was brought on by payments for swords and plowshares resulting from bumper crops and StarWars gazers.

* **Inventory recalculations occur** indicating increases--not declines for 1985:3 levels:

US Commerce Department GNP Data
(Change in inventories bil.# const)

1st estimate	2nd estimate
10/18/85	11/20/85
-2.1	+2.5

* **Durable orders** erratic caused by shifting in military orders.

* **Update from last month.** Consumer attitudes change as interest rates and inflation remain low. In a buyer's market, bargains are the biggest incentive to buy replacing old attitude of hedging against inflation by purchasing before prices go up.

TABLE 1.12

REAL GNP

Quarterly data are seasonally adjusted at annual rates

	Gross National Product					
INDICATOR	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$72 bil.	$72 bil.	$72 bil.	$72 bil.	$72 bil.	$72 bil.
Year & Qtr.						
1984*	1639.3	1062.4	289.7	-5.0	122.5	179.6
1985:1*	1663.5	1089.1	292.1	-28.4	129.8	180.9
2*	1671.3	1102.0	289.5	-33.8	129.7	183.9
3	1688.9	1116.4	283.4	-38.4	141.3	186.2
4	1704.3	1126.3	288.7	-35.3	136.5	188.1
YEAR	1682.0	1108.5	288.4	-34.0	134.3	184.8
% change from '84	2.6	4.3	-.4	579.5	9.7	2.9
1986:1	1719.8	1126.0	299.6	-29.9	134.2	189.9
2	1733.2	1131.5	302.4	-28.2	135.7	191.8
3	1746.1	1138.6	304.6	-27.6	137.1	193.4
4	1760.7	1143.6	309.1	-26.8	138.9	195.9
YEAR	1740.0	1134.9	303.9	-28.1	136.5	192.8
% change from '85	3.4	2.4	5.4	-17.2	1.6	4.3
1987:1	1775.2	1148.9	314.3	-26.9	140.6	198.3
2	1793.7	1155.9	321.8	-25.7	142.8	198.9
3	1813.5	1159.5	326.5	-20.4	145.8	202.1
4	1836.1	1170.0	332.4	-19.8	148.7	204.8
YEAR	1804.6	1158.6	323.8	-23.2	144.5	201.0
% change from '86	3.7	2.1	6.5	-17.5	5.9	4.3

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Table 1.21 - page 9

1986 FORECAST DATA

Percent Change from November 1985 Forecast

+ 2.43%	Personal cons. expend.
+ 1.40%	GNP
+ .67%	Consumer price index
+ .25%	State local purchases
- .01%	Producer price index
- 2.07%	Federal government purchases

* **Beware of INFLATION warming up** when June ´86 comes busting out all over. Lowest price increases in a decade occurred in 1985, but to all good things an end must come. And come it will as:

+ Increases in imported CONSUMER goods results from decline in US buck abroad.

+ Imported raw materials and semi-finished products push up prices of finished goods domestically.

KEDI Price Increase Forecast

% change over previous year

	1985	1986	1987
CPI	+3.6	+3.7	+4.4
PPI	+1.0	+4.6	+5.9

* **From the board rooms:**

+ US Steel eliminates formal list prices come New Year´s Eve. They will negotiate one-to-one with each customer.

- Oil barrons agree that barrel cost will drop a buck or two early in ´86 relieving a few gas pains at the pumps. Don´t let the dreamers kid you about $15/barrel. **No** way!

TABLE 1.21

PRICES

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

	---Indexes--		*-------Price deflators--------*			
INDICATOR	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967=100	1967=100	1972=100	1972=100	1972=100	1972=100
Year & Qtr.						
1984*	311.1	292.1	223.4	220.4	241.1	251.7
1985:1*	317.4	292.8	229.1	224.7	246.5	261.0
2*	321.2	293.7	230.6	226.2	250.7	264.7
3	323.5	295.9	234.0	227.9	248.1	267.9
4	326.7	297.1	236.7	233.0	251.2	271.2
YEAR	322.2	294.9	232.6	228.6	249.1	266.2
% change from '84	3.6	1.0	4.1	3.7	3.3	5.8
1986:1	329.6	300.4	238.4	235.4	253.8	273.0
2	332.7	306.4	240.6	238.0	255.2	276.0
3	335.6	310.9	243.5	240.8	258.5	279.5
4	338.6	315.8	246.1	244.2	260.0	283.9
YEAR	334.1	308.4	242.2	239.6	256.9	278.1
% change from '85	3.7	4.6	4.1	4.8	3.1	4.5
1987:1	342.3	318.8	249.3	247.5	262.5	285.2
2	346.5	322.4	252.8	252.3	265.4	288.6
3	351.2	328.7	255.7	256.4	269.8	291.4
4	355.8	336.1	258.4	259.1	273.6	295.6
YEAR	348.9	326.5	254.1	253.8	267.8	290.2
% change from '86	4.4	5.9	4.9	5.9	4.3	4.4

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*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 11

1986
FORECAST
DATA

Percent Change
from
November 1985
Forecast

+ 3.19%	Personal cons. expend.
+ 2.98%	Net Exports
+ 1.97%	GNP
+ .34%	State local purchases
+ .14%	Gross private domestic investment
- .96%	Federal governmenmt purchases

1986 LOOKIN´ GOOD

* **Export/import gap** peaking out in 1985:4. Watch for persistent declines ahead.

* **Gross private domestic investment** shows improvement:
1985: up only 1% over ´84.
1986: 5.5% increase forecast

* **Personal Consumption Expenditures** in better shape for 1986 after expanding too fast this year:

	GNP	PCE
1985	+6.8%	+8.2%
1986	+7.7%	+7.3%

* **Update from last month.** All components of GNP to have a healthier relationship to each other in 1986.

TABLE 1.22

NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates

	-----------Gross National Product----------------					
INDICATOR	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	3662.2	2341.8	637.9	-64.2	295.3	452.1
1985:1*	3811.1	2446.7	646.8	-74.5	320.0	455.3
2*	3854.0	2493.0	643.2	-94.0	325.2	486.8
3	3952.0	2544.3	631.5	-104.0	350.6	498.8
4	4034.1	2624.3	656.1	-99.3	342.9	510.1
YEAR	3912.3	2534.4	644.4	-93.0	334.7	487.8
% change from '84	6.8	8.2	1.0	44.8	13.3	7.9
1986:1	4100.0	2650.2	670.6	-79.8	340.6	518.4
2	4170.1	2693.4	676.4	-75.4	346.3	529.4
3	4251.8	2741.4	683.5	-68.1	354.4	540.6
4	4333.1	2792.8	689.7	-66.7	361.1	556.2
YEAR	4213.3	2719.1	680.0	-72.5	350.6	536.1
% change from '85	7.7	7.3	5.5	-22.0	4.8	9.9
1987:1	4425.6	2843.2	710.0	-62.3	369.1	565.6
2	4534.5	2916.5	719.2	-54.2	379.0	574.0
3	4637.1	2972.5	732.3	-50.0	393.4	588.9
4	4744.5	3031.9	752.5	-52.1	406.8	605.4
YEAR	4584.6	2940.5	728.5	-54.6	387.1	583.5
% change from '86	8.8	8.1	7.1	-24.6	10.4	8.8

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 13

1986 FORECAST DATA

Percent Change from November 1985 Forecast

+	.05%	Total employed
+	.05%	Non-agric.
+	.01%	Population
	.00%	Agriculture
	.00%	Civilian labor force
-	.11%	Unemployment rate

EMPLOYMENT OUTLOOK UP FOR ´86

* **New nonagriculture jobs** to increase by 2.4 million:

1985:4 - 104.0 million working

1986:4 - 106.4 million working

* **Umemployment rate** to drop slowly through next year:

1985 - 7.19%

1986 - 7.01%

* **Employment sectors:**

Construction - flat

Manufacturing - slight increase

Services - rapid growth

Mining - flat [no declines]

* **Update from last month.**

Make up of each 10 new jobs:

8-9 in service sector

1-2 in non-service sectors

TABLE 1.30

EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates

INDICATOR	Population	Civil. labor force	*-------Employment-------*			Unemployment rate
			Total	Agricult.	Non-agric.	
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1984*	237.4	113.5	105.0	3.4	101.6	7.52
1985:1*	239.8	115.2	106.8	3.4	103.4	7.30
2*	240.9	115.2	106.8	3.4	103.4	7.31
3	242.3	115.3	107.0	3.4	103.6	7.21
4	243.7	115.7	107.4	3.4	104.0	7.19
YEAR	241.7	115.3	107.0	3.4	103.6	7.26
% change from ’84	1.8	1.6	1.7	0.0	1.7	-3.49
1986:1	244.5	116.3	108.0	3.4	104.6	7.15
2	245.5	116.3	108.1	3.4	104.7	7.03
3	246.4	117.7	109.5	3.4	106.1	6.98
4	247.7	118.1	109.8	3.4	106.4	7.01
YEAR	246.0	117.1	108.9	3.4	105.5	7.04
% change from ’85	1.8	1.5	1.6	0.0	1.6	-2.96
1987:1	248.6	119.0	110.6	3.4	107.2	7.07
2	249.3	118.7	110.4	3.4	107.0	6.98
3	250.4	120.3	112.0	3.4	108.6	6.88
4	252.3	121.2	113.0	3.4	109.6	6.79
YEAR	250.2	119.8	111.5	3.4	108.1	6.93
% change from ’86	1.7	2.3	2.3	0.0	2.3	-1.60

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*Historical data.

1.41 HOUSING

See Table 1.41 - page 15

1986 FORECAST DATA

Percent Change from November 1985 Forecast

+ 1.93%	Mobile home shipments
+ .36%	Multi-family housing starts
+ .28%	1-Family unit price new
+ .18%	Permits authorized
.00%	Single family housing starts
- .10%	1-Family unit price existing

HOUSING STARTS ADVANCED 10.8% IN OCTOBER.

KEDI forecasts no change in downward trend.

KEDI does not agree with:

Mortgage Bankers Assn forecast that "next three or four months housing starts are going to be equal to or better than they are now."

Merrill Lynch Econometrics´ claim that housing industry could show "pretty good gains" in both starts and sales through mid-1986.

* **Home Resales Up 1.2%.**

Lower mortgage rates seen as incentive to buy existing homes. At a fixed rate of 11.64% [the lowest in six years], previously owned homes sold at an annual rate of 3.77 million units in October.

* **Update from late month.**

Housing permits dropped in October to 1.675 from September´s 1.804. Permits are the best indicator of the state of health in the housing industry.

TABLE 1.41

HOUSING

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

INDICATOR	Single family housing starts	Multi-family housing starts	Mobile home ship-ments	Permits author-ized	1-Fam. unit price new**	1-Fam. unit price exist**
Unit	mil.	mil.	mil.	mil.	tho. $	tho. $
Year & Qtr.						
1984*	1.084	.666	.295	1.682	97.0	87.0
1985:1*	1.121	.674	.291	1.709	98.5	87.3
2*	1.076	.693	.285	1.731	102.0	90.4
3	1.030	.611	.273	1.683	104.6	95.1
4	.973	.588	.269	1.484	104.8	95.2
YEAR	1.050	.641	.279	1.652	102.5	92.0
% change from '84	-3.1	-3.7	-5.3	-1.8	5.6	5.7
1986:1	.912	.638	.247	1.485	105.9	95.3
2	1.027	.650	.252	1.549	107.8	96.3
3	1.120	.626	.286	1.597	108.1	97.4
4	1.079	.587	.271	1.628	109.0	99.0
YEAR	1.031	.625	.264	1.565	107.7	97.0
% change from '85	-1.8	-2.5	-5.5	-5.3	5.1	5.4
1987:1	1.081	.638	.269	1.614	110.7	100.7
2	1.211	.670	.301	1.729	112.7	102.9
3	1.272	.682	.319	1.899	117.7	104.5
4	1.140	.654	.298	1.846	119.1	105.7
YEAR	1.176	.661	.297	1.772	115.0	103.5
% change from '86	14.1	5.7	12.4	13.2	6.8	6.6

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*Historical data.
**Average. Not seasonally adjusted.

1986 FORECAST DATA

Percent Change from November 1985 Forecast

+ .89%	Imports
.00%	Factory shipments
.00%	Dealer car inventory
.00%	Total light truck sales
- .74%	Total car sales
- 1.35%	Car sales domestic

1.42 AUTOMOBILES

See Table 1.42 - page 17

AUTO SALES SKID IN DEATH SPIRAL

*** Contract concessions by** Chrysler leave Japanese joyous as archaic work rules and job classifications prevail in Iaccoco´s rush to get cash flowing. 1970s mentality won new 3 year pact for autoworkers. At nearly $15 per hour, autoworks earn 57% more than average industrial worker and 74% more than private employees generally. So! Who can afford US cars? Only the guys who build them. The rest run to the Toyota showrooms for affordable wheels. No relief in sight as the first ten days of November indicates:

Maker	**1985**	**1984**
GM	87,224	103,975
Ford	31,248	51,988
Chrysler	20,895	25,168
Honda	2,883	3,707
AMC	2,300	4,200
VW	1,119	637
Nissan	1,300	0

*** Update from last month.**

Oil and autos account for nearly $160 billion of trade deficit. Oil is getting cheaper. Why not US car? That answer is evident with labor concessions mounting and productivity declining.

TABLE 1.42

AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1984*	10.4	8.0	2.4	1.4	8.0	3.3
1985:1*	10.9	8.4	2.4	1.6	8.3	3.7
2*	10.9	8.2	2.7	1.6	8.3	3.4
3	12.4	9.5	2.9	1.2	8.2	3.4
4	10.0	7.2	2.8	1.6	7.9	3.3
YEAR	11.1	8.4	2.7	1.6	8.2	3.5
% change from '84	6.3	-6.3	12.5	14.3	2.2	4.5
1986:1	9.9	7.2	2.7	1.7	7.6	3.4
2	10.3	7.4	2.9	1.7	8.0	3.5
3	10.1	7.2	2.9	1.9	7.7	3.7
4	10.2	7.4	2.8	1.7	7.9	3.8
YEAR	10.1	7.3	2.8	1.7	7.8	3.6
% change from '85	-8.4	-13.0	4.6	6.2	-4.6	4.3
1987:1	10.4	7.6	2.8	1.7	7.9	3.5
2	11.0	8.0	3.0	1.9	8.3	3.7
3	11.1	8.0	3.1	1.8	8.1	3.9
4	11.8	8.9	2.9	1.8	8.4	4.0
YEAR	11.1	8.1	3.0	1.8	8.2	3.8
% change from '86	9.4	5.0	4.4	5.9	4.8	4.9

---

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 19

*** DEFICIT PEAKING OUT**

EXPECT DECLINES

Forecast data calls for gradual declines, quarter by quarter to end of decade.

End of year forecast for:

Year	Federal Deficit
1986	$170 bil.
1987	173
1988	150
1989	122
1990	110

*** STATE/LOCAL BUDGETS**

SURPLUSES BUILD

Year	Surplus
1985	$51.0 bil.
1986	55.0
1987	61.6
1988	63.4
1989	67.2
1990	71.3

*** GOVERNMENT NEARS BALANCE** as Federal Deficit declines and State/Local Budgets increase.

1986
FORECAST
DATA

Percent Change from November 1985 Forecast

+ 8.86%	Corp. profits tax accru.
+ .72%	Surplus/ deficit
+ .18%	State local income taxes
+ .14%	Federal income taxes
- .12%	State local corp. tax accru.
- 3.89%	State local surplus/ deficit

TABLE 1.50

FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates

	-----FEDERAL----------			*---STATE AND LOCAL----*		
INDICATOR	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	315.0	70.9	-175.7	120.3	19.1	53.0
1985:1*	362.2	67.4	-165.1	126.8	17.9	53.7
2*	318.3	66.1	-210.1	129.9	17.6	50.3
3	354.8	69.5	-201.0	131.9	18.6	49.6
4	363.7	75.7	-196.8	135.0	19.8	50.6
YEAR	349.8	69.7	-193.2	130.9	18.5	51.0
% change from '84	11.0	-1.7	10.0	8.8	-3.3	-3.7
1986:1	375.9	79.6	-188.9	137.2	21.1	52.3
2	379.4	83.2	-184.1	139.1	21.3	53.8
3	384.9	87.4	-178.5	143.5	22.0	56.6
4	393.2	90.3	-175.7	148.8	22.3	57.2
YEAR	383.3	85.1	-181.8	142.2	21.7	55.0
% change from '85	9.6	22.2	-5.9	8.6	17.3	7.7
1987:1	403.6	92.8	-172.4	150.8	23.1	58.5
2	413.8	96.5	-169.8	152.8	23.6	60.4
3	422.7	98.9	-163.1	155.8	25.1	62.3
4	436.5	101.6	-157.8	158.4	26.0	65.4
YEAR	419.1	97.5	-165.8	154.5	24.5	61.6
% change from '86	9.3	14.5	-8.8	8.7	12.8	12.1

*Historical data.

1.60 INCOME

See Table 1.60 - page 21

1986 FORECAST DATA

Percent Change from November 1985 Forecast

+ 3.30%	Corp. after tax profits
+ .24%	Avg. weekly earnings
+ .04%	Comp. of empl.
- 1.34%	Personal income
- 1.61%	Personal disp. income
-35.83%	Personal saving

Personal Income shows good gains:

August	+.3%
September	+.3%
October	+.4%

KEDI forecast:

November	+.3%
December	+.4%

Good growth predicted for 1986:

% change over previous year

	Personal Income	Personal Dis. Income
1985	6.4%	5.7%
1986	7.4%	7.1%
1987	9.1%	9.1%

Corporate Profits: Better performance for 1986 over 1985.

Corporate after-tax profits:

1985 declines 2.4% over 1984.

1986 increase by 14.5% over 1985.

Watch for lions share of earnings from:

Electronics * Textiles
Trucking * Containers
Coal * Forest products
Computers * Leisure
Machinery

TABLE 1.60
INCOME

Quarterly data are seasonally adjusted at annual rates

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1984*	3012.1	2576.9	2173.2	146.3	156.1	368.5
1985:1*	3133.3	2644.3	2272.7	137.0	118.6	374.6
2*	3170.3	2722.1	2305.9	137.4	139.4	378.5
3	3203.5	2716.8	2335.6	144.7	78.4	382.2
4	3307.0	2808.3	2364.9	151.8	90.6	386.1
YEAR	3203.5	2722.9	2319.8	142.7	106.8	380.4
% change from '84	6.4	5.7	6.7	-2.4	-31.6	3.2
1986:1	3348.3	2835.2	2405.0	157.3	89.4	389.6
2	3403.9	2885.4	2464.7	160.2	95.3	393.0
3	3471.5	2943.1	2412.3	165.8	103.4	398.9
4	3541.2	2999.2	2565.7	170.4	106.7	406.7
YEAR	3441.2	2915.7	2461.9	163.4	98.7	397.1
% change from '85	7.4	7.1	6.1	14.5	-7.5	4.4
1987:1	3622.0	3067.6	2618.6	176.2	122.3	410.5
2	3715.4	3148.8	2660.4	180.5	128.5	414.3
3	3795.7	3217.2	2743.1	184.3	139.6	423.7
4	3884.4	3289.5	2812.2	189.7	151.4	426.8
YEAR	3754.4	3180.8	2708.6	182.7	135.4	418.8
% change from '86	9.1	9.1	10.0	11.8	37.2	5.5

*Historical data.

1.70 MONEY AND CREDIT

See Table 1.70 - page 23

FED CHEAP MONEY POLICY PREVAILS

That means loose money.

M1 to grow 2-5% above target range.

* **Danger ahead** with too much money in circulation now. More money means inflation.

* **KEDI** believes Fed has to tighten things come the new year.

* **Consumer credit** will slow somewhat in 1986 after horrendous 16.1% increase in 1985 over 1984. Look for lower level around 5.7% for 1986 over 1985.

* **Commercial & industrial** loans with normal growth of 5.7% in 1986.

Mortgages show slower pace of 4.3% in 1986 over 1985 compared to 4.9% increase in 1985 over 1984.

1986
FORECAST
DATA

Percent Change
from
November 1985
Forecast

+ 5.53%	Consumer install. credit
+ .42%	Large denom. time deposits
+ .14%	Comm. & industrial loans at banks
+ .05%	Currency & demand deposits
+ .01%	Time deposit adjust.
- .02%	Mortg. at S & L Assns.

TABLE 1.70

MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	545.0	2277.4	460.5	470.7	416.8	555.3
1985:1*	568.1	2416.4	471.6	474.1	423.6	559.3
2*	582.6	2448.2	497.3	478.4	424.2	567.1
3	604.9	2511.8	524.4	483.8	428.9	576.5
4	611.9	2558.8	534.7	488.6	433.6	582.3
YEAR	591.9	2483.8	534.7	488.6	433.6	582.3
% change from '84	8.6	9.1	16.1	3.8	4.0	4.9
1986:1	616.0	2605.1	540.6	492.4	437.4	589.9
2	626.1	2659.0	553.1	497.3	443.1	590.4
3	631.8	2708.1	558.7	513.9	448.7	595.9
4	636.9	2791.8	565.2	516.5	453.2	607.3
YEAR	627.7	2691.0	565.2	516.5	453.2	607.3
% change from '85	6.1	8.3	5.7	5.7	4.5	4.3
1987:1	641.7	2842.9	582.7	521.7	456.5	611.6
2	647.9	2910.6	595.3	525.2	459.4	617.8
3	657.4	2965.2	603.5	532.4	464.3	626.5
4	664.5	3023.1	609.5	545.7	475.2	639.6
YEAR	652.9	2935.4	609.5	545.7	475.2	639.6
% change from '86	4.0	9.1	7.8	5.7	4.9	5.3

---

*Historical data.
s.a.: seasonally adjusted at annual rates.
n.s.a.: not seasonally adjusted.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 25

LOSING INTEREST IN INTEREST

Further decline in interest rates seen by mid-86 holding through most of 1987. Investors jump ship and slip over to stocks.

1986 Yearend forecast for Interest Rates

3-month T-Bills	7.15%
Prime Rate	9.00%
Aaa Bonds	9.45%
20 year Govt bonds	10.05%

Stock market reacts with daily gains. Forecast data calls for strong bullish market throughout 1986 with small adjustments midyear.

DOW is hot as investors lose interest in interest seeking faster short-term gains while dice are rolling. **KEDI data calls for Dow** Jones Index in the 1450-1600 range in 1986.

Treasury bond yields on 30-year bonds have not been below 10% since 1979:3.

3-month T-Bills have dropped from 8.37% a year ago to 7.22% in November.

1986 FORECAST DATA

Percent Change from November 1985 Forecast

+ 6.22%	S & P´s 500 avg
+ .17%	Conv. mortg. rate
.00%	Prime rate
- .33%	Treas. bills 3 mo. yield
- .51%	20 yr. Govt. bonds yield
- 2.00%	Aaa corp. bond rate

TABLE 1.80

INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P´s 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1984*	9.52	12.04	13.84	12.65	12.36	160.50
1985:1*	8.18	10.54	13.28	12.06	11.41	177.30
2*	7.52	10.20	12.76	11.63	11.15	183.48
3	7.49	9.68	12.62	11.59	10.62	198.43
4	7.71	9.46	12.54	11.19	10.40	202.60
YEAR	7.72	9.97	12.80	11.62	10.89	190.45
% change from ´84	-18.9	-17.2	-7.5	-8.2	-11.9	18.7
1986:1	7.69	9.50	12.52	10.84	10.65	200.10
2	7.58	9.59	12.47	10.92	10.42	197.40
3	7.39	9.48	11.89	10.86	10.09	196.92
4	7.48	9.43	11.60	10.07	10.19	203.80
YEAR	7.54	9.50	12.12	10.67	10.34	199.56
% change from ´85	-2.5	-4.7	-5.3	-8.1	-5.1	4.8
1987:1	7.40	9.36	11.32	10.58	10.17	200.61
2	7.15	9.14	11.11	10.36	10.24	202.34
3	7.01	9.10	11.22	10.46	10.58	204.78
4	6.87	9.35	11.57	10.70	10.69	210.53
YEAR	7.11	9.24	11.30	10.53	10.42	204.56
% change from ´86	-5.7	-2.8	-6.7	-1.4	.8	2.5

*Historical data.

KENT ECONOMIC FORECASTING SYSTEM

This is a summary of chapters published in KEDI Economic Survey since February 1984 at the completion of a series of descriptions of the Kent Economic Forecasting System.

Chapter	Issue
Features of the Kent Economic Forecasting System	February 1984
Three Components of the Kent Model	March 1984
Forecast Horizon, Program Language, Types of Equations	April 1984
Types of Equations (Con´d)	May 1984
The Method of Futuristic Assessments	June 1984
The Kent Model´s Interindustry System	July 1984
Relationships of the Interindustry and Aggregative Divisions	August 1984
National Income and Product Data and Interindustry Data	September 1984
The Market Simulation Mechanism	October 1984
National Income and Product Data and Flow of Funds Data	November 1984
Saving, Investment, and Net Financial Investment of Sectors	December 1984

KENT ECONOMIC FORECASTING SYSTEM (Continued)

Chapter	Issue
Orientation on the Future--Not on the Past	February 1985
Forecasts versus Projections	March 1985
Basic Relationships in the Kent Model	April 1985
The Kent Model is a Macro and and Intermediate Model	May 1985
Simulation of Markets and Commodities	June 1985
The Multiple Markets Simulation Method	July 1985
Calibrating the Forecasts	September 1985
Difference Between the Kent Model and the Kent Economic Forecasting System	October 1985
Scope of Economic Models	November 1985
Review of Sections	December 1985

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the **Personal Consumption Expenditures in 1984** has been selected for comparison. The actual figure is the estimate of the U. S. Department of Commerce, **(Survey of Current Business,** September 1985, Table 1.1). Forecast data are in **Business Forecasts 1984** (Federal Reserve Bank of Richmond, Virginia, February 1984). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
(Personal Consumption Expenditures, 1984, bil. $)
Actual figure: 2334.8

Forecaster (and page in source)	**Date of Forecast**	**Forecast**	**Accuracy %**
Georgia State University, p. 21	11/83	2363.5	+1.2
Manufacturers Hanover Trust Co, p. 23	11/9/83	2343.3	+.4
Research Seminar in Quantitative Economics, Univ.of Michigan, p.24	11/17/83	2348.8	+.6
UCLA Business Forecasting Project, p.26	12/83	2355.0	+.9
Citicorp Information Service, p. 27	12/1/83	2358.1	+1.0
Metropolitan Life Insurance Co., p.28	12/1/83	2374.5	+1.7
Fidelity Bank, p. 32	12/19/83	2348.6	+.6
Evans Economics, Inc., p. 34	12/22/83	2323.0	-.5
Data Resourses, Inc., p. 36	12/24/83	2338.9	+.2
The Journal of Business Forecasting,p.37	1/84	2410.9	+3.3
Kent Economic and Development Institute, p. 39	**1/1/84**	**2341.8**	**+.3**
Lehman Bros, Kuhn Loeb, Inc., p. 40	1/5/85	2338.3	+.1
The Equitable Life Assurance Society, p. 42	1/9/84	2346.6	+.5
Morgan Guaranty Trust Co of NY, p. 43	1/12/84	2354.9	+.9
Standard & Poor's Corp, p. 44	1/12/84	2348.8	+.6

4.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 **Selected Indicators of Real Growth**	Gross national product, 1972 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 **Real GNP**	Gross national product, 1972 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 **Prices**	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 **Nominal GNP**	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 **Employment and Labor**	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal and State Budgets	**Federal govt:** Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt: Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	SCB, Blue pages
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

1/27/86

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KEDI ECONOMIC SURVEY

January 1, 1986

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SOURCES:

U.S.Department of Commerce revised estimates of 1985:3 National Income and Product data, December 20, 1985.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, December 1985.

The lastest available data on prices, employment, industrial, and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Businesses will produce more while consumers spend less during moderate growth for 1986.

Prices

Inflation will behave in 1986 picking up speed in 1987 as higher cost of imported raw materials ripple through the economy.

Employment & Labor

Healthy increases in employment for 1986-1987 in military and manufacturing jobs.

Housing

Housing starts ail in 1986, recuperate in 1987 as healthy growth spurs new starts in all increments of housing.

Automobiles

Used price-war orphans left sitting on lots while dealers await new incentive signals from Detroit.

Budgets

WELL-BEHAVED INFLATION + A FALLING DOLLAR + LOWER INTEREST RATES = DEFICIT REDUCTION.

Income

Personal income and personal disposable income show healthy increases through 1986-1987.

Money & Credit

Yes, the Fed should . . . No, the Fed shouldn't!
KEDI calls for no further relaxation in monetary policy.

Interest Rates, Yields & Securities Prices

Interest rates stable through first half 1986 with declines in second half.

0.02 OVERVIEW

OPTIMISTIC FORECASTS FOR 1986-1987

Moderate growth to continue with no slowdown or recession.

Survey of U. S. Forecasting services, conducted annually by Business Week* (Dec. 30, 1985, p. 79) shows:

	12 Forecasting Agencies (Avg.)	KEDI
	(Percent changes 1986 over 1985)	
Real GNP 1985:4-1986:4	3.1%	3.3%
GNP price deflator	3.6%	3.4%
Umemployment Rate 1986:4	6.9%	7.0%

KEDI forecast data are close to the Business Week Average. Specifically, **KEDI** forecasts:

Inflation moderate in 1986, accelerating into 1987.

Unemployment rate to hover around 6.9-7.0% in 1986, dropping slightly in 1987 to 6.8-6.9%.

Interest rates to remain at present levels through first half of 1986, with some declines in second half. A moderate upswing is forecast in 1987.

* Data for GNP and Price Deflator in the Business Week Survey used the 1972 base and may differ from data as calculated from the 1982 base; however, this not significantly change the proportions between the Business Week **Averages** and **KEDI** data.

Forecasting agencies surveyed: Chase Econometrics, Citicorp, Data Resources, Evans Economics, Fairmodel, Georgia State, **KEDI**, Merrill Lynch, Lawrence E. Meyes & Associates, University of Michigan, UCLA, and Wharton Econometrics.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

Indicator	Unit	1985	1988	1989	1990
Gross national	bil. 82$	3574.4	3933.8	4059.7	4144.9
product, p. 5	% change	2.4	4.0	3.2	2.1
Index of indust.	1967=100	124.5	143.9	150.2	155.9
prod., p. 5	% change	2.3	5.6	4.4	3.8
Capacity	%	80.3	82.9	82.0	81.2
utiliz., p. 5	% change	-.6	1.0	-1.1	-1.0
Unemployment	%	7.2	6.6	6.7	6.8
rate, p. 5	% change	-4.2	-3.9	1.0	1.1
Private housing	mil.units	1.7	2.0	1.9	1.9
starts, p. 5	% change	-2.7	9.9	-4.6	-2.5
Car sales,	mil.units	11.1	12.4	12.0	12.0
p. 5	% change	7.0	10.3	-2.7	-.8
Implicit GNP	1972=100	112.2	132.1	139.2	145.4
price def., p. 9	% change	3.8	5.2	5.4	4.4
Consumer Price	1967=100	322.1	368.3	389.3	408.3
Index, p. 9	% change	3.5	5.5	5.7	4.9
Prod.Price Index	1967=100	294.1	350.0	371.0	383.2
(fin.goods),p.9	% change	.7	7.2	6.0	3.3
Federal Deficit	bil. $	-193.2	-147.0	-123.8	-106.1
p. 19	% change	11.7	-11.2	-15.8	-14.3
Personal Income	bil. $	3401.4	4254.4	4573.5	4898.2
p. 21	% change	3305.2	8.9	7.5	7.1
Prime Rate	%	10.0	8.7	9.6	10.4
p. 25	% change	-17.1	-5.2	9.3	8.3
Mortgage Rate	%	12.8	11.0	11.4	10.7
p. 25	% change	-7.5	-2.9	3.2	-5.7
Currency+demand	bil. $	593.0	714.4	755.9	791.4
deposits, p. 23	% change	8.8	7.2	5.8	4.7
Commercial+ind.	bil. $	488.7	575.7	592.4	604.8
loans, p. 23	% change	3.8	5.4	2.9	2.1
Raw steel	mil.sh.tons	88.1	94.1	93.8	94.2
production	% change	-4.8	1.7	-.3	.4
Electric power	mil.kw-hr	2573	3108	3294	3485
production	% change	6.5	6.3	6.0	5.8
Bituminous coal	mil.sh.tons	900	1021	1050	1098
production	% change	1.2	2.4	2.8	4.6
Crude oil	avg. daily bbl.	3279	3104	3138	3141
output	% change	.9	-.9	1.1	.9
Retail sales	bil. $	1359.9	1642.1	1727.5	1832.9
p. 7	% change	4.8	7.1	5.2	6.1

Numbers in "% change" rows show percent changes over the previous year.

0.03 ASSUMPTIONS

	Last Update
1. In 1986, the weighted price of oil will keep declining; in 1987 it will level off and continue at that level in the 1988-1990 period.	Oct 1985
2. A longer-lasting relaxation in monetary and credit policies will start no earlier than in the second half of 1986, and will continue into the first part of 1987.	Oct 1985
3. In 1986 and 1987 good crops in all main producing countries are anticipated.	Jan 1984
4. Foreign trade with China will expand in 1986 and following years.	Jan 1984
5. Average rates of growth in 1984-1990 in the major industrial countries are anticipated: West Germany 3.1%; Italy 2.4%; Great Britain 2.5%; France 2.6%; Japan 2.9%.	Jan 1985
6. No drastic changes in international relationships are anticipated.	Permanent Assumption

0.04 FORECAST HIGHLIGHTS

Table 0.00 on page 3 shows forecast data of selected indicators of the January 1986 **KEDI** forecast. In 1986 moderate growth is expected. An upward trend in 1987 is anticipated. It will continue throughout 1988. Forecast data for 1985-1990 do not point to recession or major downturn. Financial outlook is optimistic. Federal budget deficits will keep declining in 1986 and the following years. This year's export-import gap will start closing to a more acceptable level.

TABLE 1.11
SELECTED INDICATORS I.

Quarterly data are seasonally adjusted at annual rates.

INDICATOR Unit	GNP $82 bil.	Index of ind. prod 1977=100	Unem- ploy ment %	Capacity util'n rate %	Private housing starts mil.	Auto sales mil.
Year & Qtr.						
1984*	3492.0	121.8	7.52	80.8	1.750	10.4
1985:1*	3547.8	123.8	7.32	80.5	1.793	10.9
2*	3557.4	124.4	7.31	80.4	1.769	10.9
3	3584.1	124.8	7.17	80.2	1.641	12.4
4	3608.3	125.2	7.02	80.3	1.605	10.3
YEAR	3574.4	124.5	7.21	80.3	1.702	11.1
% change from '84	2.4	2.3	-4.2	-.6	-2.7	7.0
1986:1	3625.2	126.5	6.97	80.4	1.552	10.2
2	3651.1	127.7	6.92	80.7	1.681	10.6
3	3681.0	129.2	6.90	80.9	1.719	11.3
4	3710.3	131.9	6.93	81.3	1.666	10.3
YEAR	3666.9	128.8	6.93	80.8	1.655	10.6
% change from '85	2.6	3.4	-3.8	.6	-2.8	-4.7
1987:1	3745.1	133.6	6.98	81.6	1.719	10.6
2	3770.2	134.9	6.91	81.7	1.881	11.2
3	3794.4	136.9	6.89	82.4	1.922	11.3
4	3820.2	139.7	6.74	82.6	1.785	11.8
YEAR	3782.5	136.3	6.88	82.1	1.827	11.2
% change from '86	3.2	5.8	-.7	1.5	10.4	5.9

*Historical data.

1.00 DETAILED FORECASTS

1.10 REAL GROWTH

See Tables 1.11, 1.12, and 1.13
Pages 5, 7 and 9.

HAPPY NEW YEAR AHEAD FOR REAL GROWTH

Consumers will spend less.
Businesses will produce more.

	1986	1987
* Services: (in real terms)		
To consumers	+5.9%	+6.2%
To businesses	+7.2%	+7.9%
* Defense industry output, measured by IIP	+7.0%	+6.9%

Moderate growth factors 1986-97:

* **Housing and Autos**--1986 not as good as 1985--still enough steam to avoid downturn in economy.

* **Exports**--Continued improvement as 20% drop in US$ abroad spurs renewed upward trend.

* **Business Capital Outlays**
KEDI differs sharply with Commerce Department's call for a 1% reduction in spending for 1986. **KEDI** sees 2.3% more for new plants and equipment in 1985 over 1986 and 2.5% in 1987.

* **Expect significant increases in capital outlays for:**
  + manufacturing, especially some nondurable industries.
  + public utilities.
  + commercial sector.

* **Consumer Spending:** Still strong but will spend less in 1986 over 1985. **Durables to be flat, while nondurables will** grow 2.3% in 1986-87 compared to 1985. Services will increase 5% in 1986-87.

TABLE 1.12

SELECTED INDICATORS II.

Quarterly data are seasonally adjusted at annual rates.

	-Personal Consumption Expenditures-			*-Retail Sales-*	
INDICATOR	Durables	Nondurables	Services	Total n.s.a.	Durables n.s.a.
Unit	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.					
1984*	331.1	874.4	1219.5	1297.0	464.3
1985:1*	351.5	895.7	1277.8	304.6	111.8
2*	356.5	910.2	1296.6	348.8	134.5
3	376.0	914.5	1315.6	350.6	135.2
4	358.3	918.9	1417.3	356.3	137.6
YEAR	360.6	909.8	1326.8	1360.3	519.1
% change from '84	8.9	4.1	8.8	4.9	11.8
1986:1	369.2	927.1	1453.7	360.7	138.9
2	379.6	936.2	1464.2	363.6	140.2
3	389.1	946.8	1499.6	370.2	142.5
4	392.3	956.8	1609.2	374.8	144.9
YEAR	382.6	941.7	1506.6	1469.3	566.5
% change from '85	6.1	3.5	13.6	8.0	9.1
1987:1	416.2	969.2	1643.6	379.3	145.1
2	421.7	975.8	1669.2	387.7	147.9
3	436.3	984.5	1678.8	395.8	149.8
4	443.9	992.2	1704.6	403.4	152.6
YEAR	429.5	980.4	1674.1	1566.2	595.4
% change from '86	12.3	4.1	11.1	6.6	5.1

n.s.a. = not seasonally adjusted.

1.00 DETAILED FORECASTS

(Continued)

* **Manufacturing:** Improved performance overall, with good growth forecast for:
  + Semiconductors
  + Food and kindred products
  + Electronics
  + Defense
  + Aerospace
  + Biochemicsls
  + Leisure industry
  + Communications
  + Paper
  + Lumber and products
  + Plastics

  Problems persist for:
  - Oil extraction and exploration
  - Textiles
  - Metallic ore mining
  - Tractors & farm machinery

* **Construction**
  Slow growth. Flat performance in residential construction and declines in office space building.

  Slight increases in road, maintenance and repair, and public projects.
* **Transportation**
  Main increases in the railroad and trucking segments. Flat in water and air transportation.

* **Foreign Trade**
  KEDI expects improvement in 1986 picking up speed in 1987 and following years. Imports to slow as exports grow. In real terms, imports will grow in 1986 by 3%, and 3.5% in 1987 compared to 1985. Exports up by 4-6%, respectively. This improved trade picture will add to the US economy by improving the position of MADE IN USA goods.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

	*-----------Gross National Product					---------------*
INDICATOR	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1984*	3492.0	2239.9	661.3	-85.0	292.5	383.3
1985:1*	3547.8	2288.6	639.6	-71.8	304.3	387.1
2*	3557.4	2303.5	655.6	-101.1	305.8	393.6
3	3584.1	2329.6	645.0	-119.8	331.2	398.1
4	3608.3	2343.7	659.8	-106.4	308.7	402.5
YEAR	3574.4	2316.3	650.0	-99.8	312.5	395.3
% change from '84	2.4	3.4	-1.7	17.4	6.8	3.1
1986:1	3625.2	2353.8	661.4	-105.7	310.3	405.4
2	3651.1	2354.8	669.9	-97.2	312.7	410.9
3	3681.0	2366.2	679.3	-95.1	314.9	415.7
4	3710.3	2376.9	683.3	-87.4	319.1	418.4
YEAR	3666.9	2362.9	673.5	-96.3	314.2	412.6
% change from '85	2.6	2.0	3.6	-3.4	.6	4.4
1987:1	3745.1	2397.5	689.5	-81.6	320.5	419.2
2	3770.2	2399.7	697.2	-73.2	323.1	423.4
3	3794.4	2411.2	702.5	-73.8	328.1	426.4
4	3820.2	2426.5	711.2	-79.2	332.1	429.6
YEAR	3782.5	2408.7	700.1	-77.0	326.0	424.6
% change from '86	3.2	1.9	4.0	-20.1	3.7	2.9

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Table 1.21 - page 11

INFLATION WILL BEHAVE IN 1986

KEDI does not agree with gloomy prediction of some forecasters pegging inflation for 1986 at 5-8%, with 1987 adding another 2-3%

Rationale for moderate inflation in 1986:

* Prices of energy will raise only slightly because oil prices will stay below level of 1985.

* Prices of farm produces will remain stable or increase only marginally in 1986-87.

* There will be no strong demand for consumer durables [autos, appliances, and other big ticket items] in 1986 compared to 1985. Weak demand will keep price tags lower.

Inflation will accelerate in 1987:

* Prices of imported commodities [raised due to the low international value of the dollar] will ripple through the economy by increasing costs of products of importing industries.

* Average wage increases in manufacturing, mining, and service sectors will increase more significantly and push up costs.

* Expect price increase of crude materials and semi-finished products.

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

	---Indexes--		*-------Price deflators--------*			
INDICATOR	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1984*	311.1	292.1	108.1	108.2	107.0	105.9
1985:1*	317.4	292.8	110.4	110.3	109.9	114.4
2*	321.2	293.7	111.3	111.3	110.4	116.1
3	323.5	292.8	112.8	111.9	110.1	117.5
4	326.4	297.3	114.4	115.0	110.6	118.7
YEAR	322.1	294.1	112.2	112.1	110.2	116.7
% change from '84	3.5	.7	3.8	3.6	3.0	10.2
1986:1	329.2	300.3	116.1	116.8	111.4	120.1
2	332.7	306.4	117.2	118.1	112.9	122.0
3	335.8	310.9	118.6	119.8	114.9	124.1
4	338.8	315.8	122.1	124.5	116.2	125.7
YEAR	334.1	308.4	118.5	119.8	113.9	123.0
% change from '85	3.7	4.8	5.6	6.8	3.3	5.4
1987:1	342.4	318.7	123.5	126.3	118.1	127.9
2	346.6	322.4	124.6	127.8	121.1	130.2
3	351.4	328.7	126.2	128.6	123.7	133.6
4	355.9	336.1	128.0	129.4	125.6	135.8
YEAR	349.1	326.5	125.6	128.0	122.1	131.9
% change from '86	4.5	5.9	6.0	6.9	7.3	7.2

*Historical data.

**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

GNP IN 1986 TO BE SHAPED BY FOUR MAJOR FACTORS:

1. **Personal Consumption Expenditures.** Spending will slacken from the boom year just closed, but not enough to become sluggish. A sligh retrench will occur because:

* Consumers are heavily in debt, no doubt about that, but companies are stretching out monthly payments and lowering interest rates as incentives to keep consumers spending.

* Appreciation of stocks and bonds is increasing along with consumers' net worth--another incentive to borrow.

* Forecast data of personal income shows healthy increase. Easy come--easy go!

2. Foreign trade negative balance will continue to decline, pushing up GNP.

3. Strong inventory building results in more production by manufacturing and utilities.

4. Moderate increases in business capital formation.

These factors will cause the 1986-87 GNP to be more proportionate than in 1985 resulting in less consumer purchases, less negative net result of foreign trade, healtheir growth of inventories, and moderate development in government spending.

TABLE 1.22
NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

	*-----------Gross National Product---------------					---------------*
INDICATOR	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	3774.1	2423.0	674.0	-59.2	312.9	423.9
1985:1*	3917.5	2525.0	657.8	-42.3	334.4	442.8
2*	3960.6	2563.3	672.8	-70.3	337.7	457.1
3	4016.9	2606.8	666.1	-87.8	364.8	467.7
4	4127.9	2694.5	678.4	-86.2	341.4	477.8
YEAR	4011.4	2597.0	668.8	-71.7	344.6	461.3
% change from '84	6.3	7.2	-.8	21.0	10.1	8.8
1986:1	4208.9	2750.0	703.6	-77.3	345.7	486.9
2	4279.1	2780.0	706.9	-62.1	353.0	501.3
3	4365.7	2835.5	712.7	-60.2	361.8	515.9
4	4530.3	2958.3	718.6	-43.3	370.8	525.9
YEAR	4345.3	2830.9	710.5	-60.7	357.8	507.5
% change from '85	8.3	9.0	6.2	-15.2	3.8	10.0
1987:1	4625.2	3029.0	730.6	-49.1	378.5	536.2
2	4697.7	3066.7	735.6	-47.2	391.3	551.3
3	4788.5	3099.6	750.4	-37.0	405.9	569.7
4	4889.9	3140.7	769.8	-21.2	417.1	583.4
YEAR	4749.8	3083.8	746.6	-38.6	398.2	560.1
% change from '86	9.3	8.9	5.1	-36.4	11.3	10.4

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

HEALTHY INCREASES IN EMPLOYMENT
FOR 1986-1987

* New military jobs.

* Manufacturing is emerging from a long sluggish period. Forecast data points to slight increases in manufacturing jobs in 1986 and 1987 when compared to the decline in 1985.

Individual sectors for 1986:

* Mining--flat with no more declines in metallic ores mining, slight increase in coal mining.

* Construction--leveling in residential segment, declining in office and commercial construction, and good outlook for jobs in roads and public projects.

* Manufacturing:
- flat in primary metals, steel, textiles, shoes, apparel, rubber, autos, leather, electrical machinery.

+ Good outlook for nonelectrical machinery, chemicals, aerospace.

++ Largest increases for food, plastics, paper and office machines.

* Trade--solid increments in retail while leveling in wholesale.

* Transportation--trucking shows largest increases.

* Services--increases in financial services, real estate, fast food, personal services, repairs, hotels/motels, and education.

1986 FORECAST DATA

Percent Change from December 1985 Forecast

+ .21%	Total employed
+ .21%	Non-agric.
+ .13%	Civilian labor force
+ .01%	Population
.00%	Agriculture
- 1.56%	Unemployment rate

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment		-------*	Unemployment rate
			Total	Agricult.	Non-agric.	
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1984*	237.4	113.5	105.0	3.4	101.6	7.17
1985:1*	239.8	115.2	107.1	3.4	103.4	7.30
2*	240.9	115.2	106.9	3.4	103.5	7.21
3	242.3	115.1	107.2	3.4	103.6	7.17
4	243.7	116.2	108.0	3.4	104.6	7.02
YEAR	241.7	115.4	107.4	3.4	104.0	7.21
% change from '84	1.8	1.7	1.6	0.0	1.6	-4.19
1986:1	244.5	116.4	108.3	3.4	104.9	6.97
2	245.5	116.8	108.7	3.4	105.3	6.92
3	246.4	117.7	109.6	3.4	106.2	6.90
4	247.7	118.1	109.9	3.4	106.5	6.93
YEAR	246.0	117.2	109.1	3.4	105.7	6.93
% change from '85	1.8	1.6	1.7	0.0	1.7	-3.82
1987:1	248.6	119.0	110.7	3.4	107.3	6.98
2	249.3	119.7	111.4	3.4	108.0	6.91
3	250.4	120.3	112.0	3.4	108.6	6.89
4	252.3	121.2	113.0	3.4	109.6	6.74
YEAR	250.2	120.0	111.8	3.4	108.4	6.88
% change from '86	1.7	2.4	2.4	0.0	2.4	-.72

*Historical data.

1.41 HOUSING

See Table 1.41 - page 17

1986
FORECAST
DATA

Percent Change
from
December 1985
Forecast

.00%	Single family housing starts
-.13%	Permits authorized
- 1.32%	Multi-family housing starts
- 1.33%	Mobile home shipments
- 1.44%	1-Family unit price existing
- 2.62%	1-Family unit price new

HOUSING STARTS AIL IN 1986,
RECUPERATE IN 1987.

Possibly some declines in 1986 from 1985 data.

1987 shows healthy growth with strong increments in all types of housing units.

* Housing cycle has been on the skids since 1984, but will bottom out in 1986.

* Mortgage rates no longer stimulate housing starts as overbuilding leaves many new units unsold. 1986 will see further declines in mortgage rates providing little, if any, difference in number of new housing starts.

* In 1986 the market for new and existing homes will be a buyer's market. Do not expect appreciable price increases.

* Turnaround in housing expected not earlier than 1987.

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home shipments mil.	Permits authorized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1984*	1.084	.665	.295	1.682	97.0	87.0
1985:1*	1.121	.674	.291	1.709	98.5	87.3
2*	1.076	.693	.285	1.731	100.6	90.4
3	1.029	.641	.274	1.762	100.1	93.1
4	.985	.620	.270	1.643	102.1	93.4
YEAR	1.053	.657	.280	1.711	100.3	91.0
% change from '84	-2.9	-1.2	-5.1	1.7	3.4	4.7
1986:1	.914	.638	.247	1.483	102.7	93.7
2	1.030	.651	.252	1.544	103.2	94.1
3	1.128	.591	.272	1.597	104.6	95.6
4	1.079	.587	.271	1.628	109.0	99.0
YEAR	1.031	.617	.261	1.563	104.9	95.6
% change from '85	-2.1	-6.1	-7.0	-8.7	4.5	5.0
1987:1	1.081	.638	.269	1.614	105.1	96.3
2	1.211	.670	.304	1.730	107.2	97.8
3	1.270	.680	.320	1.899	108.3	99.6
4	1.133	.652	.298	1.846	109.0	101.4
YEAR	1.174	.660	.298	1.772	107.4	98.8
% change from '86	13.8	7.0	14.3	13.4	2.4	3.3

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

USED PRICE-WAR ORPHANS LEFT SITTING ON LOTS WHILE DEALERS AWAIT NEW INCENTIVE SIGNALS FROM DETROIT.

Forecast data for 1986 is down for autos, but not enough to cause alarm:

* Used car lots are bulging with late model used cars resulting from premature trade-ins during low interest rate wars during of 1985.

* New car inventories are the highest since the 1979 Iranian oil crisis.

* KEDI forecasts cuts in production plans in Detroit will automakers re-think ambitious 1986 assembly schedules.

* Price discounting and low interest rates will not stimulate new car sales as much in 1986 as in 1985.

* Used car dealers are cutting prices and offering more attractive guarantees to unload the glut of used cars flooding their lots.

* More Japanese cars being sold, along with an increase in car leasing has depressed prices of used cars. "Some dealers aren't even putting the price on the car windows," according to the president of Certified Collateral Corp., a Chicago-based computerized car valuation service.

1986 FORECAST DATA

Percent Change from December 1985 Forecast

+ 8.93%	Imports
+ 4.95%	Total car sales
+ 3.42%	Car sales domestic
+ 2.08%	Total light truck sales
+ 1.60%	Factory shipments
-11.76%	Dealer car inventory

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1984*	10.4	8.0	2.4	1.4	8.0	3.3
1985:1*	10.9	8.4	2.4	1.6	8.3	3.7
2*	10.9	8.2	2.7	1.6	8.3	3.6
3	12.4	9.5	2.9	1.2	9.4	3.6
4	10.2	6.9	3.3	1.5	8.0	3.8
YEAR	10.6	8.2	2.8	1.5	8.5	3.7
% change from '84	1.9	3.1	17.7	7.1	6.2	11.4
1986:1	10.2	7.3	2.9	1.7	7.7	3.5
2	10.6	7.5	3.1	1.7	8.1	3.7
3	11.3	8.0	3.3	1.3	8.3	3.7
4	10.3	7.4	2.9	1.5	7.6	3.8
YEAR	10.6	7.5	3.0	1.5	7.9	3.7
% change from '85	-4.7	-12.7	8.0	0.0	-6.8	0.0
1987:1	10.6	7.8	2.8	1.7	7.9	3.5
2	11.2	8.2	3.0	1.9	8.2	3.9
3	11.3	8.2	3.1	1.7	8.2	4.1
4	11.8	8.9	2.9	1.8	8.4	4.0
YEAR	11.2	8.3	3.0	1.8	8.2	3.9
% change from '86	5.9	9.2	-3.3	20.0	3.2	5.4

---

*Historical data.

**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

WELL-BEHAVED INFLATION + A FALLING DOLLAR + LOWER INTEREST RATES = DEFICIT REDUCTION.

The problem with the deficit is not it's size, but the **DEBT SERVICE** burden that goes with it. With lower [or declining] interest rates, the public debt burden declines even if the nominal increases in the debt.

The **Federal Deficit Dilemma** over the past four years has been more political than economic.

KEDI has incorporated the Federal Budget Deficit Reduction Act into the forecast anticipating revisions of the Federal Income Tax Code to take effect in 1987.

Look for extensive changes to the tax code that passed the House of Representatives in December 1985. The Senate will shape the document more in the image of the Administration that the House was able to accomplish.

KEDI calculations show **no** real effects [positive or negative] on the economy from the deficit reduction measures recently enacted.

**1986
FORECAST
DATA**

**Percent Change
from
December 1985
Forecast**

+ 6.36%	State local income taxes
+ .64%	State local surplus/ deficit
+ .03%	Federal income taxes
- .17%	Surplus/ deficit
- .46%	State local corp. tax accru.
- 3.64%	Corp. profits tax accru.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

	-----FEDERAL----------			*---STATE AND LOCAL----*		
INDICATOR	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	311.3	74.4	-172.9	130.5	19.2	64.4
1985:1*	363.9	65.9	-165.6	137.8	17.5	63.2
2*	321.8	65.0	-209.1	141.1	17.3	57.3
3	355.4	68.9	-201.3	142.9	18.5	56.9
4	363.2	75.0	-196.8	145.6	19.8	54.5
YEAR	351.1	68.7	-193.2	141.8	18.3	58.0
% change from '84	12.8	-7.7	11.7	8.7	-4.8	-10.0
1986:1	375.8	78.2	-188.7	147.8	20.7	53.1
2	379.2	81.0	-184.0	149.2	21.3	54.2
3	385.0	83.1	-178.2	153.4	22.1	56.7
4	393.6	85.7	-175.1	157.1	22.3	57.4
YEAR	383.4	82.0	-181.5	151.9	21.6	55.4
% change from '85	9.2	19.4	-6.1	7.1	18.2	-4.5
1987:1	403.8	89.2	-172.0	160.2	23.1	58.9
2	413.9	93.4	-169.7	162.4	23.5	60.0
3	422.8	96.5	-163.0	165.3	25.4	62.1
4	436.5	99.7	-157.4	168.0	26.1	63.7
YEAR	419.2	94.7	-165.5	164.0	24.5	61.2
% change from '86	9.4	15.5	-8.8	8.0	13.5	10.5

---

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

PERSONAL INCOME AND PERSONAL DISPOSABLE INCOME SHOW HEALTHY INCREASES THROUGH 1986-1987.

CORPORATE EARNINGS:

More hefty earnings for electronics, computers, trucking, containers, paper, chemicals, leisure industries, machinery, forest products, fabricated metal products, financial services, coal, plastics, and truck manufacturing.

Goods earnings forecast for rubber, food and kindred products, chemicals, wholesale and retail trade, railroads, communications, printing and publishing and construction.

Modest gains [with some declines] for automobile manufacturing [except trucks], electrical utilities, building materials, textiles, metallic ores, mining, primary metals, oil extraction and refineries, and oil exploration.

TABLE 1.60
INCOME

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1984*	3111.9	2670.2	2221.3	144.0	172.5	368.5
1985:1*	3240.9	2739.2	2320.4	136.6	130.9	374.6
2*	3280.1	2817.7	2356.9	136.4	167.2	378.5
3	3298.5	2800.2	2358.2	141.1	102.6	382.2
4	3401.4	2892.6	2404.7	151.8	106.6	383.6
YEAR	3305.2	2812.4	2360.1	141.5	126.8	379.7
% change from '84	6.2	5.3	6.2	-1.8	-26.5	3.0
1986:1	3476.6	2953.0	2442.1	147.4	107.4	385.7
2	3516.1	2987.7	2498.7	158.2	109.5	390.4
3	3588.7	3050.3	2524.6	160.7	113.7	393.1
4	3728.4	3177.7	2576.9	167.6	116.2	396.2
YEAR	3577.4	3042.1	2510.6	158.5	111.7	391.4
% change from '85	8.2	8.2	6.4	12.0	-11.9	3.1
1987:1	3822.2	3258.2	2638.9	171.8	124.5	405.4
2	3879.3	3303.0	2679.6	177.3	130.2	408.6
3	3929.8	3341.7	2749.6	182.9	134.3	412.9
4	3995.4	3390.9	2802.1	188.2	140.8	417.8
YEAR	3906.7	3323.5	2717.6	180.1	132.4	411.2
% change from '86	9.2	9.2	8.2	13.6	18.6	5.1

*Historical data.

1.70 MONEY AND CREDIT

See Table 1.70 - page 25

YES, THE FED SHOULD . . .
NO, THE FED SHOULDN'T!

There are as many opinions to support further credit-easing moves by the Federal Reserve System as there are against it; however,

KEDI CALLS FOR NO FURTHER RELAXATION IN MONETARY POLICY,

at least through the first half of 1986. Enormous increases in M1 in 1985 have already pumped too much money into the economy. Any further fast growth in the money supply can only lead to INFLATION. With the economy on a firm footing and manufacturing gaining strength, there is no short-term need to prime the pump to stimulate economic growth. Mickey Levy, senior VP and chief economist at Fidelity Bank in Philadelphia believes "the economy is moving along at a healthy clip," and that a discount rate cut is unnecessary. However, John Paulus, chief economist at Morgan Stanley & Co. believes that a discount rate cut is needed because of the economy's "continued sluggishness."

**1986
FORECAST
DATA**

**Percent Change
from
December 1985
Forecast**

+ .79%	Time deposit adjust.
+ .44%	Currency & demand deposits
- .02%	Consumer install. credit
- .04%	Comm. & industrial loans at banks
- .05%	Mortg. at S & L Assns.
- 2.32%	Large denom. time deposits

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDI-CATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	545.0	2277.4	460.5	470.7	416.8	555.3
1985:1*	568.1	2416.4	471.6	474.1	423.6	559.3
2*	582.6	2448.2	495.8	478.4	424.2	569.3
3	604.5	2511.2	524.4	483.8	433.6	577.2
4	616.9	2558.6	538.3	488.7	425.6	582.9
YEAR	593.0	2483.6	538.3	488.7	425.6	582.9
% change from '84	8.8	9.1	16.9	3.8	2.1	5.0
1986:1	621.4	2605.2	543.6	492.0	427.8	589.8
2	627.7	2659.6	553.0	497.2	432.5	590.3
3	632.4	2792.0	560.1	509.3	438.7	598.0
4	636.4	2792.0	565.1	516.3	442.7	607.0
YEAR	629.5	2712.2	565.1	516.3	442.7	607.0
% change from '85	6.1	9.2	5.0	5.6	4.0	4.1
1987:1	648.7	2842.3	577.2	521.3	449.5	611.3
2	661.0	2909.5	587.4	525.6	453.4	617.2
3	673.8	2962.0	597.4	532.9	456.2	627.7
4	682.3	3020.7	607.4	546.2	461.3	639.7
YEAR	666.5	2933.6	607.4	546.2	461.3	639.7
% change from '86	5.9	8.2	7.5	5.8	4.2	5.4

*Historical data. n.s.a: not seasonally adusted.
s.a.: seasonally adjusted at annual rates.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1986 FORECAST DATA

Percent Change from December 1985 Forecast

+ 4.35%	S & P's 500 avg
- .10%	Conv. mortg. rate
- .37%	Prime rate
- .45%	Aaa corp. bond rate
- 3.46%	20 yr. Govt. bonds yield
- 4.97%	Treas. bills 3 mo. yield

INTEREST RATES STABLE THROUGH FIRST HALF 1986 WITH DECLINES IN SECOND HALF.

* Forecast data shows almost unchanged levels of key interest rates such as Treasure Bills, Federal funds, Prime Rate, CS's and related rates.

* Long-term rates, especially bond yields remain stable through first half 1986.

Second half 1986 shows a general decline in interest rates:

* Demand for funds in U.S. financial markets will abate mainly due to the slowdown in business capital outlays--less need for financing.

* Federal deficit pressures from the Treasury will ease.
* Supply of foreign funds will decline slightly.

* With pressures easing, interest rates tend to decline.

KEDI expects funds to move into stocks and bonds with continued strength.

While some see the DJ Industrial at the 2000 level this year, **KEDI** calls for a high of 1700 and a low of 1500. For most of the year, Standard & Poor's 500 average will be in the 205-215 range.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P's 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1984*	9.52	12.04	13.84	12.65	12.36	160.50
1985:1*	8.18	10.54	13.28	12.06	11.41	177.30
2*	7.52	10.20	12.76	11.63	11.15	183.48
3	7.11	9.68	12.62	11.03	10.74	188.30
4	7.10	9.50	12.54	10.96	10.31	204.43
YEAR	7.48	9.98	12.80	11.42	10.90	188.38
% change from '84	-21.5	-17.1	-7.5	-9.7	-11.8	17.4
1986:1	7.29	9.50	12.56	10.89	10.01	206.14
2	7.21	9.50	12.49	10.81	9.87	201.46
3	7.09	9.46	11.85	10.62	9.96	209.53
4	7.07	9.40	11.53	10.17	10.09	215.84
YEAR	7.17	9.46	12.11	10.62	9.98	208.24
% change from '85	-4.2	-5.2	-5.4	-7.0	-8.4	10.5
1987:1	6.95	9.35	11.32	10.48	10.17	213.64
2	6.91	9.11	11.11	10.46	10.22	219.38
3	7.02	9.10	11.28	10.49	10.38	214.75
4	6.83	9.35	11.64	10.79	10.69	210.51
YEAR	6.93	9.23	11.34	10.55	10.37	214.57
% change from '86	-3.3	-2.5	-6.4	-.6	3.8	3.0

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the **Consumer Price Index in 1985** has been selected for comparison. The actual figure has been calculated from the U. S. Department of Commerce CPI data for the January-November 1985 period, and the December 1985 CPI figure from the preliminary estimates for that month. Forecast data are in **Business Forecasts 1985** (Federal Reserve Bank of Richmond, Virginia, February 1985). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
(Consumer Price Index, 1967=100)
Actual figure: 322.1

Forecaster (and page in source)	**Date of Forecast**	**Forecast**	**Accuracy %**
U. S. Trust Company of New York, p.11	12/27/84	325.2	+1.0
Georgia State University, p. 15	11/84	324.9	+ .9
First Interstate Bank of Calif., p.16	11/19/84	325.4	+1.0
Harris Bank, p. 16	11/28/84	324.4	+.7
Research Seminar in Quantitative Economics, Univ.of Michigan, p.24	12/17/84	324.8	+.9
Metropolitan Life Insurance Co., p.21	12/1/84	326.7	+1.4
Evans Economics, Inc., p. 34	12/21/84	322.0	.0
Manufacturers Hanover Trust Co, p. 23	12/26/84	322.5	+.1
Chase Econometrics, p. 28	12/26/84	323.4	+.4
Kent Economic and Development Institute, p. 32	**1/1/85**	**322.0**	**.0**
Morgan Guaranty Trust Co of NY, p. 34	1/10/85	321.8	.0
The Journal of Business Forecasting, p.31	1/85	325.1	+.9
Merrill Lynch Economics, p. 36	1/14/85	324.0	+.6
Chemical Bank, p. 37	1/15/85	325.2	+1.0
Armco, Inc., p. 41	1/24/85	326.0	+1.2

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin**, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production**, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 **Selected Indicators of Real Growth**	Gross national product, 1972 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 **Real GNP**	Gross national product, 1972 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 **Prices**	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 **Nominal GNP**	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 **Employment and Labor**	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal and State Budgets	**Federal govt:**Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt: Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	SCB, Blue pages
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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KEDI ECONOMIC SURVEY

February 1, 1986

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SOURCES:

U.S.Department of Commerce revised estimates of 1985:4 National Income and Product data, December 20, 1985.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, January 1986.

The lastest available data on prices, employment, industrial, and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Production will increase as consumers spend less during moderate growth for 1986.

Prices

Cost of imported raw materials will gradually push up prices throughout the economy moderately in 1986 accelerating into 1987.

Employment & Labor

Manufacturing jobs and military rolls will show heft increases in employment for 1986-1987.

Housing

Housing starts to remain flat in 1986, recuperating in 1987 as healthy growth spurs new starts in all increments of housing.

Automobiles

Incentives still fueling auto sales with only limited wind in the sales to sustain momentum.

Budgets

Look for further deficit reductions as long as inflation and interest rates remain low.

Income

Personal income and personal disposable income show healthy increases through 1986-1987.

Money & Credit

KEDI calls for no further relaxation in monetary policy.

Interest Rates, Yields & Securities Prices

Interest rates stable through first half 1986 with declines in second half.

0.02 OVERVIEW

KEDI is Optimistic for 1986 U. S. Economy

Moderate growth throughout the year in most segments, **inflation accelerating a bit** but still within tolerable limits, **healthy gains in employment**, and **interest rates** declining in the second half of the year. **Consumer spending** will slacken from the year just closed, but will not become sluggish. **Foreign trade negative balance** will continue to decline, pushing up output. Moderate increases in **business capital formation.** Improvements in output of **manufacturing, coal mining, utilities**, and continuing strong performance in the **service sector.** Expect above average growth in semiconductors, aerospace, defense, electronics, leisure industries, plastics, comunications, office machines, food and kindred products, and road maintenance and repairs. Average growth in rubber, lumber, chemicals, electrical machinery, furniture and fixtures, clay and glass, automobiles, paper, primary metals, rail and truck transportation, steel, residential construction, and metalworking machinery. Problems will persist in oil extraction and exploration, textiles, apparel, shoes, metallic ores mining, tractors and farm machinery, and construction of office space. **Housing and autos**--not as good as in 1985--still enough steam to avoid downturn in the economy.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

Indicator	Unit	1985	1988	1989	1990
Gross national	bil. 82$	3573.6	3958.3	4092.8	4199.3
product, p. 5	% change	2.3	4.0	3.4	2.6
Index of indust.	1967=100	124.6	144.0	150.2	155.9
prod., p. 5	% change	2.3	5.6	4.3	3.8
Capacity	%	80.2	82.8	82.1	81.3
utiliz., p. 5	% change	-.7	1.1	-.9	-.9
Unemployment	%	7.2	6.5	6.6	6.6
rate, p. 5	% change	-4.2	-3.8	1.0	1.0
Private housing	mil.units	1.7	2.0	1.9	1.9
starts, p. 5	% change	-1.0	9.8	-4.1	-2.4
Car sales,	mil.units	11.1	12.5	12.2	12.1
p. 5	% change	7.0	10.4	-2.8	-.8
Implicit GNP	1972=100	111.9	128.0	134.6	140.4
price def., p. 9	% change	3.5	5.1	5.2	4.3
Consumer Price	1967=100	322.1	361.3	381.9	400.3
Index, p. 9	% change	3.5	5.4	5.7	4.8
Prod.Price Index	1967=100	293.9	341.1	361.6	373.5
(fin.goods),p.9	% change	.6	7.0	6.0	3.3
Federal Deficit	bil. $	-193.2	-145.3	-122.2	-104.3
p. 19	% change	11.8	-11.4	-15.9	-14.6
Personal Income	bil. $	3294.2	4172.5	4489.6	4808.4
p. 21	% change	5.9	8.9	7.6	7.1
Prime Rate	%	9.9	8.8	9.7	10.6
p. 25	% change	-17.5	-3.6	9.8	9.2
Mortgage Rate	%	12.7	10.9	11.3	10.7
p. 25	% change	-8.2	-3.0	3.6	-5.9
Currency+demand	bil. $	593.0	713.5	753.5	789.6
deposits, p. 23	% change	8.8	7.0	5.6	4.8
Commercial+ind.	bil. $	486.1	574.2	589.1	600.9
loans, p. 23	% change	3.3	5.2	2.6	2.0
Raw steel	mil.sh.tons	88.1	94.3	93.8	94.2
production	% change	-4.8	1.8	-.5	.6
Electric power	mil.kw-hr	2576	3108	3294	3485
production	% change	6.5	6.3	4.9	5.7
Bituminous coal	mil.sh.tons	900	1021	1050	1098
production	% change	1.2	2.4	2.8	4.6
Crude oil	avg. daily bbl.	3279	2961	3138	3141
output	% change	.9	-2.0	-1.0	.9
Retail sales	bil. $	1362.7	1648.4	1727.5	1832.9
p. 7	% change	4.9	7.2	5.6	6.7

Numbers in "% change" rows show percent changes over the previous year.

0.03 ASSUMPTIONS

		Last Update
1.	In 1986, the weighted price of oil will keep declining; in 1987 it will level off and continue at that level in the 1988-1990 period.	Jan 1986
2.	A longer-lasting relaxation in monetary and credit policies will start no earlier than in second half of 1986, and will continue into the first part of 1987.	Oct 1985
3.	In 1986 and 1987 good crops in all main producing countries are anticipated.	Jan 1984
4.	Foreign trade with China will expand in 1986 and following years.	Jan 1984
5.	Average rates of growth in 1984-1990 in major major industrial countries are anticipated: West Germany 3.1%; Italy 2.4%; Great Britain 2.5%; France 2.6%; Japan 2.9%.	Jan 1985
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.04 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the January 1986 **KEDI** forecast.
* In 1986 moderate growth is expected.
* An upward trend in 1987 is anticipated. It will continue throughout 1988.
* Forecast data for 1986-1990 do not point to recession or major downturn.
* Financial outlook is optimistic.
* Federal budget deficits will keep declining in 1986 and the following years.
* This year's export-import gap will start closing to a more acceptable level.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates

INDICATOR	GNP	Index of ind. prod	Unem- ploy ment	Capacity util'n rate	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1984*	3492.0	121.8	7.52	80.8	1.750	10.4
1985:1*	3547.8	123.8	7.32	80.5	1.793	10.9
2*	3557.4	124.4	7.31	80.4	1.769	10.9
3*	3584.1	124.8	7.17	80.1	1.641	12.4
4*	3605.0	125.3	7.02	79.9	1.729	10.3
YEAR	3573.6	124.6	7.21	80.2	1.733	11.1
% change from '84	2.3	2.3	-4.2	-.7	-1.0	7.0
1986:1	3636.3	126.6	6.94	80.3	1.586	10.3
2	3662.2	127.7	6.87	80.7	1.728	10.7
3	3691.7	129.3	6.87	80.9	1.801	11.2
4	3721.3	132.0	6.86	81.2	1.742	10.8
YEAR	3677.9	128.9	6.88	80.8	1.714	10.8
% change from '85	2.9	3.5	-4.4	.7	-1.1	-3.4
1987:1	3760.1	133.7	6.82	81.6	1.746	10.7
2	3788.9	134.9	6.77	81.7	1.897	11.3
3	3824.3	137.1	6.73	82.3	1.948	11.5
4	3850.8	139.8	6.70	82.5	1.809	11.9
YEAR	3806.0	136.4	6.75	82.0	1.850	11.3
% change from '86	3.5	5.8	-1.9	1.5	7.9	5.6

*Historical data.

1.00 DETAILED FORECASTS

1.10 REAL GROWTH

See Tables 1.11 and 1.12
Pages 5 and 7.

Moderate growth factors 1986-97:

* **Housing and Autos**--1986 not as good as 1985--still enough steam to avoid downturn in economy.

* **Exports**--Continued improve--ment as 20% drop in US$ abroad spurs renewed upward trend.

* **Business Capital Outlays KEDI differs sharply with** Commerce Department's call for a 1% reduction in spending for 1986. **KEDI sees 2.3% more** for new plants and equipment in 1985 over 1986 and 2.5% in 1987.

* **Expect significant increases** in capital outlays for:
  + manufacturing, especially some nondurable industries.
  + public utilities.
  + commercial sector.

* **Consumer Spending:** Still strong but will spend less in 1986 over 1985. Durables to be flat, while nondurables will grow 2.3% in 1986-87 compared to 1985. Services will increase 5% in 1986-87.

1986
FORECAST
DATA

Percent Change
from
January 1986
Forecast

+ 1.42%	Autos
+ .84%	Private Housing Starts
+ .30%	GNP
+ .08%	Index Indus. Prod.
- .03%	Capa-city util.
- .65%	Unemp.

TABLE 1.12

SELECTED INDICATORS II.

Quarterly data are seasonally adjusted at annual rates.

	--Personal Cons. Expend.-			*------Retail Sales-------*		
INDICATOR	Durables	Nondurables	Services	Total n.s.a.	Durables n.s.a.	Nondurables n.s.a.
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1984*	331.1	874.4	1219.5	1297.0	464.3	832.7
1985:1*	351.5	895.7	1277.8	304.6	111.8	192.8
2*	356.5	910.2	1296.6	348.8	134.5	214.3
3*	376.0	914.5	1315.6	350.6	135.2	215.4
4*	359.2	929.4	1344.7	362.9	138.1	224.8
YEAR	360.8	912.5	1308.7	1366.9	519.6	847.3
% change from '84	9.0	4.4	7.3	5.4	11.9	1.8
1986:1	370.6	940.1	1401.2	360.4	139.9	220.5
2	384.4	951.3	1392.4	364.0	140.1	223.9
3	398.2	960.7	1430.4	369.5	142.1	227.4
4	408.9	969.8	1462.3	374.2	143.8	230.4
YEAR	390.5	955.5	1421.6	1468.1	565.9	902.2
% change from '85	8.2	4.7	8.6	7.4	8.9	6.5
1987:1	417.2	979.2	1500.8	385.7	150.4	235.3
2	423.1	983.9	1560.2	396.6	158.6	238.0
3	440.7	999.1	1588.6	408.9	162.3	246.6
4	449.6	1110.7	1500.1	418.3	170.8	247.5
YEAR	432.6	1018.2	1536.9	1609.5	642.1	967.4
% change from '86	10.8	6.6	8.1	9.6	13.5	7.2

n.s.a. = not seasonally adjusted at annual rates.

1.00 DETAILED FORECASTS

(Continued)

Index of Industrial Production
(1977 = 100)

	Annual Avg. 1985	Annual Avg. 1986
Metal Mining	75.5	77.9
Coal	125.9	129.2
Oil and Gas Extraction	106.0	101.5
Foods	131.4	136.8
Textile Mill Products	102.5	102.9
Paper Products	127.4	130.1
Chemicals and Products	127.6	135.4
Rubber (Tires)	113.1	114.7
Plastic Products	169.8	178.3
Clay, Glass & Stone	114.7	116.2
Iron & Steel	70.6	72.1
Fabricated Metal Products	107.9	114.8
Nonelectrical Machinery	168.8	170.3
Motor Vehicles and Parts	112.6	113.0
Electric Utilities	119.7	123.4

1986 FORECAST DATA

Percent Change from January 1986 Forecast

+ 15.13%	Net exports
+ 3.56%	Federal gov't purchases
+ .77%	Personal cons. expend.
+ .54%	Gross private dom. invest.
+ .30%	GNP
- 1.83%	State local purch.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates

INDICATOR	*-----------Gross National Product					---------------*
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1984*	3492.0	2239.9	661.3	-85.0	292.5	383.3
1985:1*	3547.8	2288.6	639.6	-71.8	304.3	387.1
2*	3557.4	2303.5	655.6	-101.1	305.8	393.6
3*	3584.1	2329.6	645.0	-119.8	331.2	398.1
4*	3605.0	2328.2	662.2	-127.1	343.7	398.0
YEAR	3573.6	2312.5	650.6	-104.9	321.2	394.2
% change from '84	2.3	3.2	-1.6	23.5	9.8	2.8
1986:1	3636.3	2371.0	664.4	-120.9	321.4	400.4
2	3662.2	2371.5	675.9	-112.4	324.6	402.6
3	3691.7	2387.4	679.8	-108.6	326.2	406.9
4	3721.3	2394.8	688.4	-101.6	329.4	410.3
YEAR	3677.9	2381.2	677.1	-110.9	325.4	405.1
% change from '85	2.9	3.0	4.1	5.6	1.3	2.8
1987:1	3760.1	2418.7	695.2	-98.3	331.5	413.0
2	3788.9	2428.4	702.3	-90.6	333.2	415.6
3	3824.3	2448.3	707.1	-85.7	335.3	419.3
4	3850.8	2456.7	714.6	-79.3	336.0	422.8
YEAR	3806.0	2438.0	704.8	-88.5	334.0	417.7
% change from '86	3.5	2.4	4.1	-20.2	2.6	3.1

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Table 1.21 - page 11

**1986
FORECAST
DATA**

**Percent Change
from
January 1986
Forecast**

- 2.99%	Personal cons. expend.
- 2.29%	Producer Price Index
- 2.05%	GNP
- .85%	State local purchases
- .77	Federal government purchases
- .74%	Consumer Price Index

Moderate inflation in 1986:

* Prices of energy will behave. Expect declines in prices of crude oil and refinery products.

* Farm product prices will remain stable or rise only marginally.

* Weaker demand for consumer durables--autos, appliances, and other consumer big ticket items.

* Expect continuous increasing prices for domestic and imported crude materials. This year their effect will be moderate. Higher prices will ripple through the economy and affect the price level more significantly in 1987.

* Forecast data indicates minimal effects of higher prices of imported consumer goods due to lower international value of the dollar.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

	---Indexes--		*-------Price deflators--------*			
INDICATOR	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1984*	311.1	292.1	108.1	108.2	107.0	105.9
1985:1*	317.4	292.8	110.4	110.3	109.9	114.4
2*	321.2	293.7	111.3	111.3	110.4	116.1
3*	323.5	292.8	112.8	111.9	110.1	117.5
4*	326.4	296.2	113.0	113.1	110.2	119.4
YEAR	322.1	293.9	111.9	111.7	110.2	116.8
% change from '84	3.5	.6	3.5	3.2	2.9	10.3
1986:1	328.6	297.9	114.6	114.4	111.0	120.1
2	330.3	299.3	115.1	115.0	112.4	121.8
3	333.1	302.4	116.6	116.8	113.7	122.3
4	334.5	305.8	118.0	118.6	115.0	123.6
YEAR	331.6	301.4	116.1	116.2	113.0	121.9
% change from '85	2.9	2.5	3.8	4.1	2.6	4.4
1987:1	340.1	322.0	119.2	119.8	116.3	125.9
2	333.2	314.6	121.0	122.2	118.9	128.2
3	347.9	317.4	122.6	123.7	120.7	130.5
4	350.1	321.3	124.3	124.6	123.4	133.8
YEAR	342.8	318.8	121.8	122.6	119.8	129.6
% change from '86	3.4	5.8	4.9	5.5	6.0	6.3

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

MAJOR FACTORS OF GNP FOR 1986:

1. **Personal Consumption** Expenditures. Spending will slacken from the boom year just closed, but not enough to become sluggish. A slight retrenching will occur because:

* Consumers are heavily in debt, no doubt about that, but companies are stretching out monthly payments and lowering interest rates as incentives to keep consumers spending.

* Appreciation of stocks and bonds is increasing along with consumers' net worth--another incentive to borrow.

* Forecast data of personal income shows healthy increase. Easy come--easy go!

2. Foreign trade negative balance will continue to decline, pushing up GNP.

3. Strong inventory building results in more production by manufacturing and utilities.

4. Moderate increases in business capital formation.

These factors will cause the 1986-87 GNP to be more proportionate than in 1985 resulting in less consumer purchases, less negative net result of foreign trade, healtheir growth of inventories, and moderate development in government spending.

1986
FORECAST
DATA

Percent Change
from
January 1986
Forecast

+ 18.99%	Net Exports
+ 2.80%	Federal government purchases
+ .26%	Gross private domestic investment
- 1.75%	GNP
- 2.24%	Personal cons. exp.
- 2.66%	State local purchases

TABLE 1.22
NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates

	-----------Gross National Product---------------					
INDICATOR	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	3774.1	2423.0	674.0	-59.2	312.9	423.9
1985:1*	3917.5	2525.0	657.8	-42.3	334.4	442.8
2*	3960.6	2563.3	672.8	-70.3	337.7	457.1
3*	4016.9	2606.8	666.1	-87.8	364.8	467.7
4*	4075.1	2633.3	685.2	-97.2	378.7	475.1
YEAR	3997.9	2581.9	670.5	-74.4	353.9	460.7
% change from '84	5.9	6.6	-.5	25.7	13.1	8.7
1986:1	4167.2	2711.9	704.8	-87.1	356.8	480.9
2	4215.2	2728.1	709.2	-77.3	364.9	490.4
3	4304.5	2789.3	715.1	-68.4	370.9	497.6
4	4391.1	2841.0	720.3	-56.1	378.8	507.1
YEAR	4269.4	2767.6	712.4	-72.2	367.8	494.0
% change from '85	6.8	7.2	6.2	-2.9	3.9	7.2
1987:1	4482.0	2897.2	732.4	-53.1	385.5	520.0
2	4584.6	2967.2	738.6	-50.2	396.2	532.8
3	4688.6	3028.4	755.9	-47.6	404.7	547.2
4	4786.5	3060.4	779.2	-33.4	414.6	565.7
YEAR	4634.8	2987.8	751.5	-46.1	400.3	541.4
% change from '86	8.6	8.0	5.5	-36.2	8.8	9.6

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1.8 MILLION NEW JOBS IN 1986

* Manufacturing is emerging from a long sluggish period. Forecast data points to slight increases in manufacturing jobs in 1986 and 1987 when compared to the decline in 1985.

Individual sectors for 1986:

* Mining--flat with no more declines in metallic ores mining, slight increase in coal mining.

* Construction--leveling in residential segment, declining in office and commercial construction, and good outlook for jobs in roads and public projects.

* Manufacturing:
- flat in primary metals, steel, textiles, shoes, apparel, rubber, autos, leather, electrical machinery.

+ Good outlook for nonelectrical machinery, chemicals, aerospace.

++ Largest increases for food, plastics, paper and office machines.

* Trade--solid increments in retail while leveling in wholesale.

* Transportation--trucking shows largest increases.

* Services--increases in financial services, real estate, fast food, personal services, repairs, hotels/motels, and education.

1986 FORECAST DATA

Percent Change from January 1986 Forecast

+ .25%	Non-agric.
+ .24%	Total employed
+ .21%	Civilian labor force
+ .01%	Population
.00%	Agriculture
- 1.01%	Unemployment rate

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates

			-------Employment-------			
INDICATOR	Population	Civil. labor force	Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1984*	237.4	113.5	105.0	3.4	101.6	7.17
1985:1*	239.8	115.2	107.1	3.4	103.4	7.30
2*	240.9	115.2	106.9	3.4	103.5	7.21
3*	242.3	115.1	107.2	3.4	103.6	7.17
4	243.7	116.2	108.0	3.4	104.6	7.02
YEAR	241.7	115.4	107.5	3.4	104.1	7.21
% change from '84	1.8	1.7	1.6	0.0	1.6	-4.19
1986:1	244.5	116.4	108.3	3.4	104.9	6.94
2	245.5	116.9	108.9	3.4	105.5	6.87
3	246.4	118.0	109.9	3.4	106.5	6.85
4	247.7	118.5	110.4	3.4	107.0	6.86
YEAR	246.0	117.5	109.4	3.4	106.0	6.86
% change from '85	1.8	1.8	1.9	0.0	1.9	-4.44
1987:1	248.6	119.0	110.9	3.4	107.5	6.82
2	249.3	119.6	111.5	3.4	108.1	6.77
3	250.4	120.1	112.0	3.4	108.6	6.73
4	252.3	121.0	112.9	3.4	109.5	6.70
YEAR	250.2	119.9	111.8	3.4	108.4	6.75
% change from '86	1.7	2.1	2.1	0.0	2.1	-1.89

*Historical data.

1.41 HOUSING

See Table 1.41 - page 17

**1986
FORECAST
DATA**

**Percent Change
from
January 1986
Forecast**

+ 7.98%	Multi-family housing starts
+ 1.25%	Mobile home shipments
.00%	Single family housing starts
- .14%	1-Family unit price new
- .73%	1-Family unit price existing
-.91%	Permits authorized

HOUSING STARTS FLAT IN 1986, RECUPERATE IN 1987.

Do not expect a housing boom this year.

1987 shows healthy growth with strong increments in all types of housing units.

* Housing cycle has been on the skids since 1984, but will bottom out in 1986.

* 1986 will see further declines in mortgage rates providing little, if any, difference in number of new housing starts.

* In 1986 the market for new and existing homes will be a buyer's market. Do not expect appreciable price increases.

* Turnaround in housing expected not earlier than 1987.

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home shipments mil.	Permits authorized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1984*	1.084	.665	.295	1.682	97.0	87.0
1985:1*	1.121	.674	.291	1.709	98.5	87.3
2*	1.076	.693	.285	1.731	100.6	90.4
3*	1.029	.641	.274	1.762	100.1	93.1
4	1.052	.677	.273	1.685	102.0	93.3
YEAR	1.070	.671	.281	1.722	100.3	91.0
% change from '84	-1.3	.9	-4.8	2.4	3.4	4.6
1986:1	.914	.672	.248	1.609	102.6	93.7
2	1.044	.684	.256	1.169	103.1	94.0
3	1.138	.663	.279	1.797	104.4	95.2
4	1.096	.646	.274	1.620	108.9	96.7
YEAR	1.031	.666	.264	1.549	104.8	94.9
% change from '85	-3.6	-.7	-5.9	-10.0	4.4	4.3
1987:1	1.074	.672	.271	1.698	105.0	97.0
2	1.203	.694	.306	1.819	107.3	97.1
3	1.264	.704	.322	1.906	108.5	98.8
4	1.125	.684	.298	1.885	109.7	100.5
YEAR	1.167	.689	.299	1.827	107.6	98.3
% change from '86	13.1	3.3	13.2	18.0	2.7	3.6

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*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

DISCOUNT INCENTIVES CONTINUE TO POUR FUEL ON AUTO SALES.

* Light trucks are star seller in auto showrooms

Forecast data for 1986 is down for autos, but not enough to cause alarm:

* Used car lots are bulging with late model used cars resulting from premature trade-ins during low interest rate wars during of 1985.

* New car inventories are the highest since the 1979 Iranian oil crisis.

* **KEDI** forecasts cuts in production plans in Detroit will automakers re-think ambitious 1986 assembly schedules.

* Price discounting and low interest rates will not stimulate new car sales as much in 1986 as in 1985.

* Used car dealers are cutting prices and offering more attractive guarantees to unload the glut of used cars flooding their lots.

* More Japanese cars being sold, along with an increase in car leasing has depressed prices of used cars. "Some dealers aren't even putting the price on the car windows," according to the president of Certified Collateral Corp., a Chicago-based computerized car valuation service.

1986
FORECAST
DATA

Percent Change
from
January 1986
Forecast

+ 3.33%	Imports
+ 2.00%	Car sales domestic
+ 1.42%	Total car sales
+ .68%	Total light truck sales
+ .32%	Factory shipments
- 6.67%	Dealer car inventory

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1984*	10.4	8.0	2.4	1.4	8.0	3.3
1985:1*	10.9	8.4	2.4	1.6	8.3	3.7
2*	10.9	8.2	2.7	1.6	8.0	3.6
3*	12.4	9.5	2.9	1.2	9.3	3.6
4*	10.3	7.0	3.3	1.3	7.9	3.8
YEAR	10.7	8.3	2.8	1.3	8.4	3.7
% change from '84	2.9	3.4	17.7	-7.1	4.7	11.4
1986:1	10.3	7.2	3.1	1.7	7.8	3.5
2	10.7	7.7	3.0	1.6	8.0	3.7
3	11.2	7.9	3.3	1.5	8.0	3.8
4	10.8	7.8	3.0	1.4	7.9	3.9
YEAR	10.8	7.7	3.1	1.4	7.9	3.7
% change from '85	-3.4	-13.1	9.7	7.7	-5.4	1.4
1987:1	10.7	7.8	2.9	1.6	7.9	3.6
2	11.3	8.1	3.2	1.7	8.1	3.9
3	11.5	8.3	3.2	1.8	8.4	4.2
4	11.9	8.9	3.0	1.6	8.7	4.1
YEAR	11.3	8.3	3.1	1.6	8.3	4.0
% change from '86	5.6	6.4	-.8	14.3	4.4	6.0

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

LOOK FOR FURTHER DEFICIT REDUCTIONS AS LONG AS INFLATION AND INTEREST RATES REMAIN LOW

The **Federal Deficit Dilemma** over the past four years has been more political than economic.

KEDI has incorporated the Federal Budget Deficit Reduction Act into the forecast anticipating revisions of the Federal Income Tax Code to take effect in 1987.

Look for extensive changes to the tax code that passed the House of Representatives in December 1985. The Senate will shape the document more in the image of the Administration that the House was able to accomplish.

KEDI calculations show **no** significant effects [positive or negative] on the economy from the deficit reduction measures recently enacted.

The problem with the deficit is not it's size, but the **DEBT SERVICE** burden that goes with it. With lower [or declining] interest rates, the public debt burden declines even if the nominal increases in the debt.

1986
FORECAST
DATA

Percent Change
from
January 1986
Forecast

+ 1.99%	State local surplus/ deficit
+ .77%	State local income taxes
+ .28%	Federal income taxes
- .11%	Surplus/ deficit
- 1.19%	Corp. profits tax accru.
- 2.08%	State local corp. tax accru.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates

	-----FEDERAL----------			*---STATE AND LOCAL----*		
INDICATOR	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	311.3	74.4	-172.9	130.5	19.2	64.4
1985:1*	363.9	65.9	-165.6	137.8	17.5	63.2
2*	321.8	65.0	-209.1	141.1	17.3	57.3
3*	355.4	68.9	-201.3	142.9	18.5	56.9
4*	363.8	74.5	-196.9	146.3	19.8	54.8
YEAR	351.2	68.6	-193.2	142.0	18.3	58.0
% change from '84	12.8	-7.8	11.8	8.8	-4.8	-9.9
1986:1	376.4	77.3	-188.4	148.2	20.1	53.9
2	380.5	80.0	-184.1	150.2	21.0	55.6
3	386.3	82.2	-178.0	155.6	21.6	57.2
4	394.7	84.6	-174.7	158.3	21.9	59.3
YEAR	384.5	81.0	-181.3	153.1	21.1	56.5
% change from '85	9.5	18.2	-6.2	7.8	15.7	-2.7
1987:1	404.1	87.0	-171.2	162.3	22.0	61.2
2	414.7	91.2	-169.1	164.1	22.8	62.4
3	423.6	94.3	-160.2	166.8	23.7	64.3
4	437.9	97.6	-155.3	170.1	24.6	65.1
YEAR	420.1	92.5	-163.9	165.8	23.3	63.2
% change from '86	9.3	14.2	-9.6	8.3	10.0	11.9

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

PERSONAL INCOME AND PERSONAL DISPOSABLE INCOME WILL GROW PROPORTIONATELY TO RISE IN NOMINAL GNP

* Percent growth in both aggregates compared to percent growth of nominal GNP.

* Corporate profits will improve significantly when compared to 1985.

* Good earnings predicted for:

+ electronics
+ office machines
+ semiconductors
+ containers
+ paper
+ chemicals
+ leisure industries
+ forest products
+ fabricated metal products
+ financial services
+ medical and legal services
+ truck manufacturing
+ defense and aerospace
+ plastics

* Fairly good earnins for:
+ rubber
+ food and kindred products
+ trade
+ communications
+ printing and publishing
+ lumber
+ chemicals
+ coal
+ construction
+ utilities.

**1986
FORECAST
DATA**

**Percent Change
from
January 1986
Forecast**

+ 15.02%	Personal Savings
+ 5.50%	Average weekly earnings
- .20%	Comp. of emp.
- 1.18%	Personal income
- 1.46%	Personal disp. income
- 1.25%	Corp. after tax profits

TABLE 1.60
INCOME

Quarterly data are seasonally adjusted at annual rates

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1984*	3111.9	2670.2	2221.3	144.0	172.5	368.5
1985:1*	3240.9	2739.2	2320.4	136.6	130.9	374.6
2*	3280.1	2817.7	2356.9	136.4	167.2	378.5
3*	3298.5	2800.2	2358.2	141.1	102.6	382.2
4*	3357.4	2847.2	2428.1	150.1	118.6	389.7
YEAR	3294.2	2801.1	2365.9	141.1	129.8	381.2
% change from '84	5.9	4.9	6.5	-2.0	-24.7	3.5
1986:1	3454.4	2929.8	2461.1	146.7	120.3	406.0
2	3485.5	2954.8	2519.2	157.0	126.5	411.1
3	3564.7	3022.8	2446.7	158.3	130.4	414.4
4	3636.5	3083.5	2594.9	164.1	136.7	420.2
YEAR	3535.3	2997.7	2505.5	156.5	128.5	412.9
% change from '85	7.3	7.0	5.9	11.0	-1.0	8.3
1987:1	3711.5	3145.1	2649.7	168.9	140.5	423.8
2	3800.5	3221.7	2695.3	174.1	144.9	427.6
3	3878.2	3287.8	2760.7	180.1	147.3	432.5
4	3935.7	3327.7	2814.3	185.2	152.8	440.9
YEAR	3831.5	3245.6	2730.0	177.1	146.4	431.2
% change from '86	8.4	8.3	9.0	13.1	13.9	4.4

*Historical data.

1.70 MONEY AND CREDIT

See Table 1.70 - page 25

1986
FORECAST
DATA

Percent Change
from
January 1986
Forecast

+ .57%	Consumer install. credit
+ .10%	Mortg. at S & L Assns.
+ .07%	Time deposit adjust.
+ .05%	Currency & demand deposits
- .14%	Comm. & industrial loans at banks
- 3.55%	Large denom. time deposits

KEDI CALLS FOR NO FURTHER RELAXATION IN MONETARY POLICY,

at least through the first half of 1986. Enormous increases in M1 in 1985 have already pumped too much money into the economy. Any further fast growth in the money supply can only lead to INFLATION. With the economy on a firm footing and manufacturing gaining strength, there is nobshort-term need to prime the pump to stimulate economic growth.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits adjusted, M2" are averages of daily figures; other data are end of period figures.

INDI-CATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit n.s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	545.0	2277.4	460.5	470.7	416.8	555.3
1985:1*	568.1	2416.4	471.6	474.1	423.6	559.3
2*	582.6	2448.2	495.8	478.4	424.2	569.3
3*	604.5	2511.2	524.4	483.8	433.6	576.9
4	616.8	2559.7	539.2	486.1	430.0	581.9
YEAR	593.0	2483.9	539.2	486.1	430.0	581.9
% change from '84	8.8	9.1	17.1	3.3	3.2	4.8
1986:1	621.5	2605.3	534.1	492.0	429.1	588.7
2	627.9	2659.7	552.3	497.1	431.5	590.1
3	632.8	2792.2	561.9	509.0	433.2	598.3
4	637.1	2799.4	568.3	515.8	437.1	607.9
YEAR	629.8	2714.2	568.3	515.8	437.1	607.9
% change from '85	6.2	9.3	5.4	6.1	1.7	4.5
1987:1	648.9	2843.1	577.4	520.2	438.5	611.3
2	661.4	2909.9	588.7	525.1	441.4	617.4
3	674.1	2963.5	599.3	532.1	445.2	628.2
4	682.9	3024.8	609.2	545.8	449.2	641.2
YEAR	666.8	2935.3	609.2	545.8	449.2	641.2
% change from '86	5.9	8.1	7.2	5.8	2.8	5.5

*Historical data. n.s.a: not seasonally adusted.
s.a.: seasonally adjusted at annual rates.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

INTEREST RATES STABLE THROUGH FIRST HALF 1986 WITH DECLINES IN SECOND HALF

* Forecast data shows almost unchanged levels of key interest rates such as Treasury Bills, Federal funds, Prime Rate, CD's and related rates.

* Long-term rates, especially bond yields remain stable through first half 1986.

Second half 1986 shows a general decline in interest rates.

* **MONEY SUPPLY** will not grow at such a horrendous pace as in 1985.

* Expect 6.1% increase in money supply M1 compared to 8.8% last year.

* Pressures on financial markets will ease due to:

- + Improving deficit picture
- + Improved corporate cash flow
- + Decrease in consumer credit demand
- + Loss business capital spending
- + Supply of foreign funds still strong

* Expect most lasting declines in interest rates and yields later this year. Forecast data points to declines in second half 1986.

1986
FORECAST
DATA

Percent Change
from
January 1986
Forecast

+ 6.11%	S & P's 500 avg
- 1.13%	Prime rate
- 2.46%	Aaa corp. bond rate
- 5.24%	Conv. mortg. rate
- 5.27%	Treas. bills 3 mo. yield
- 8.56%	20 yr. Govt. bonds yield

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P's 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1984*	9.52	12.04	13.84	12.65	12.36	160.50
1985:1*	8.18	10.54	13.28	12.06	11.41	177.30
2*	7.52	10.20	12.76	11.63	11.15	183.48
3*	7.11	9.50	12.58	11.03	10.74	188.30
4	7.13	9.50	12.19	10.90	10.16	204.46
YEAR	7.48	9.93	12.70	11.41	10.87	188.38
% change from '84	-21.4	-17.5	-8.2	-9.8	-12.1	17.4
1986:1	7.29	9.50	12.08	10.76	9.92	208.89
2	7.18	9.50	11.28	10.54	9.50	207.85
3	7.07	9.32	11.45	10.32	9.21	212.56
4	7.03	9.25	11.13	10.01	9.19	217.72
YEAR	7.14	9.39	11.48	10.41	9.46	211.75
% change from '85	-4.6	-5.5	-9.6	-8.7	-13.0	12.4
1987:1	6.90	9.25	11.26	10.02	9.26	219.23
2	6.83	9.11	11.02	10.08	9.32	219.96
3	7.01	9.10	11.24	10.30	9.36	217.34
4	6.80	9.25	11.60	10.22	10.08	213.62
YEAR	6.88	9.18	11.28	10.16	9.50	217.54
% change from '86	-3.6	-2.3	-1.8	-2.4	.5	2.7

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the **Unemployment Rate in 1985** has been selected for comparison. The actual figure has been calculated from the U. S. Department of Commerce data for the January-October 1985 period, (Survey of Current Business, U. S. Dept. of Commerce, monthly, Blue pages), and the November-December 1985 figures from the U. S. Dept. of Commerce estimates for these months. Forecast data are in **Business Forecasts 1985** (Federal Reserve Bank of Richmond, Virginia, February 1985). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
Unemployment Rate (% of civilian labor force)
Actual figure: 7.2%

Forecaster (and page in source)	Date of Forecast	Forecast %	Accuracy %
Walter D. Fackler, University of Chicago, p. 8	11/27/84	7.0	-2.8
U. S. Trust Company of New York, Econ. Dept., p. 10	12/27/84	7.4	+2.8
J. A. Livingston, The Philadelphia Inquirer, p. 10	12/30/83	7.4	+2.8
U. S. News & World Report, Economic Unit, p. 12	12/31/84	6.8	-5.6
Ashland Oil, Inc., p. 14	11/84	7.5	+4.2
Georgia State University, p. 15	11/84	7.2	.0
First Interstate Bank of Calif., p.16	11/19/84	7.0	-2.8
American Statistical Assn and Nat'l Bureau of Econ. Research, p. 17	12/84	7.2	.0
CoreStates Financial Corp., p. 18	12/84	7.5	+4.2
Mellon Bank, p. 19	12/84	7.4	+2.8
U. S. Chamber of Commerce, p. 20	12/84	7.0	-2.8
Metropolitan Life Insurance Co., p.21	12/1/84	6.8	-5.6

(Continued on page 29)

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

(Continued from page 28)

Forecaster (and page in source)	Date of Forecast	Forecast %	Accuracy %
UCLA Business Forecasting Project,p.22	12/13/84	7.4	+2.8
Alex A. Burkholder, WLS-TV-ABC, Chicago, Ill., p. 23	12/15/84	7.4	+2.8
Research Seminar in Quantitative Economics, Univ. of Michigan, p. 24	12/17/84	7.2	.0
Fidelity Bank, p. 25	12/20/84	7.2	.0
Evans Economics, Inc., p. 26	12/21/84	7.4	+2.8
Data Resources, Inc., p. 27	12/23/84	7.4	+2.8
Chase Econometrics, p. 28	12/26/84	7.1	-1.4
Manufacturers Hanover Trust Co, p. 23	12/26/84	7.5	+4.2
Wharton Econometric Forecasting Associates, Inc., p. 30	12/26/84	6.9	-4.2
Peter L. Bernstein, Inc., p. 31	12/21/84	7.2	.0
The Journal of Business Forecasting,p.31	1/85	7.2	.0
Kent Economic and Development Institute, p. 32	1/1/85	7.2	.0
First Nat'l Bank of Chicago, p. 33	1/7/85	7.5	+4.2
Morgan Guaranty Trust Co of NY, p. 34	1/10/85	7.0	-2.8
Standard & Poor's Corp., p. 34	1/10/85	7.5	+4.2
Merrill Lynch Economics, p. 36	1/14/85	7.0	-2.8
Chemical Bank, p. 37	1/15/85	7.4	+2.8
The Equitable Life Assurance, p. 38	1/15/85	7.1	-1.4
Shearson Lehman/American Express, p. 39	1/15/85	7.2	.0
Money Market Services, Inc., p. 40	1/22/85	6.8	-5.6

(Some forecast data may include the military in the total labor force.)

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: Survey of **Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin**, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production**, G.12.3 Release, IIP,(Board of Governors of the Federal Reserve System, Washington, D. C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	**Data Series**	**Source**
1.11 Selected Indicators of Real Growth	Gross national product, 1972 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Real GNP	Gross national product, 1972 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal and State Budgets	**Federal govt:**Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt: Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	SCB, Blue pages
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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KEDI ECONOMIC SURVEY

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SOURCES:

U.S.Department of Commerce revised estimates of 1984:4 National Income and Product data, February 20, 2986.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, February 1986.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

An epidemic of good needs as Index of Industrial Production is up a slight .3% in January.

Prices

KEDI forecasts Consumer Price Index at 2.3% against the Fed forecast of 3.5%.

Employment & Labor

Constantly improving job picture for sectors of manufacturing, construction, some parts of mining, and most service industries

Housing

Conditions for purchasing a home are the best in thirty years as mortgage rates and longer terms prevail.

Automobiles

Auto plant closings seem certain as technology and demand shift hears for the next decade.

Budgets

Congressional Budget Office drops federal budget deficit forecast for 1990 from $300 billion to $120 billion.

Income

Low personal saving rate offset by higher savings in the business sector, state and local government.

Money & Credit

Further easing of money supply would bring about conditions that would fuel inflation.

Interest Rates, Yields & Securities Prices

Recent reductions in interest rates in Japan and Germany indicate a growing pressure on Fed to ease credit conditions.

0.02 OVERVIEW

VALUE OF THE INTERNATIONAL DOLLAR

THE DOLLAR IS LOW ENOUGH

Some economists and politicians are calling for further reductions in the international value of the dollar. Further declines will necessarily increase inflational pressures. While inflation slumbers unnoticed, it is by no means dead!

* By historic standards today's annual inflation rate of 3% is high. In the two decades following World War II, the average rate of inflation was less than 2%.

* The money supply is growing at a breakneck pace that will eventually push prices up.

* Increased cost of imports will continue up if the dollar continues down.

* The dollar is down far enough. Results of the major drops in the value of the dollar last year are slow to show up until they percolate through the US and world economies.

* Some producers flame the fires of inflation with claims that they could increase prices because of the weakened dollar.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

Indicator	Unit	1985	1988	1989	1990
Gross national	bil. 82$	3571.0	3954.1	4092.5	4198.9
product, p. 5	% change	2.3	4.0	3.5	2.6
Index of indust.	1967=100	124.6	146.4	152.4	158.0
prod., p. 5	% change	2.3	5.5	4.1	3.7
Capacity	%	80.2	82.8	82.1	81.4
utiliz., p. 5	% change	-.7	1.1	-.9	-.8
Unemployment	%	7.2	6.6	6.5	6.6
rate, p. 5	% change	-4.2	-3.8	1.1	1.0
Private housing	mil.units	1.7	2.0	2.0	1.9
starts, p. 5	% change	-1.0	9.9	-4.1	-2.4
Car sales,	mil.units	11.1	12.5	12.2	12.1
p. 5	% change	7.0	10.5	-2.8	-.6
Implicit GNP	1972=100	111.8	123.7	129.3	134.6
price def., p. 9	% change	3.5	4.0	4.5	4.1
Consumer Price	1967=100	322.1	349.1	362.3	376.8
Index, p. 9	% change	3.6	3.6	3.8	4.0
Prod.Price Index	1967=100	293.9	319.9	335.0	344.7
(fin.goods),p.9	% change	.6	4.2	4.7	2.9
Federal Deficit	bil. $	-193.2	-146.4	-124.3	-103.7
p. 19	% change	11.7	-11.1	-15.1	-16.6
Personal Income	bil. $	3293.4	4133.4	4447.6	4772.2
p. 21	% change	5.8	7.9	7.6	7.3
Prime Rate	%	9.9	8.4	9.3	10.1
p. 25	% change	-17.5	-3.6	9.8	9.2
Mortgage Rate	%	12.7	10.1	10.4	9.8
p. 25	% change	-8.2	-3.0	3.6	-5.9
Currency+demand	bil. $	593.0	714.9	754.9	789.7
deposits, p. 23	% change	8.8	6.9	5.6	4.6
Commercial+ind.	bil. $	486.1	572.5	587.4	598.5
loans, p. 23	% change	3.3	5.1	2.6	1.9
Raw steel	mil.sh.tons	88.1	92.7	93.8	94.2
production	% change	-4.8	1.7	-.8	.3
Electric power	mil.kw-hr	2576	3112	3294	3485
production	% change	6.5	6.3	4.9	5.7
Bituminous coal	mil.sh.tons	900	974	1050	1098
production	% change	1.2	2.0	.4	1.3
Crude oil	avg. daily bbl.	3279	2641	3138	3141
output	% change	.9	-2.4	-1.3	.9
Retail sales	bil. $	1362.7	1685.3	1727.5	1832.9
p. 7	% change	4.9	7.4	5.1	6.2

Numbers in "% change" rows show percent changes over the previous year.

0.03 ASSUMPTIONS

		Last Update
1.	In 1986, the weighted price of oil will keep declining; in 1987 it will level off and continue at that level in the 1988-1990 period.	Jan 1986
2.	A longer-lasting relaxation in monetary and credit policies will start in the second quarter of 1986, and will continue into the first part of 1987.	March 1985
3.	In 1986 and 1987 good crops in all main producing countries are anticipated.	Jan 1984
4.	Foreign trade with China will expand in 1986 and following years.	Jan 1984
5.	Average rates of growth in 1984-1990 in major industrial countries are anticipated: West Germany 3.1%; Italy 2.4%; Great Britain 2.5%; France 2,6%; Japan 2.9%.	Jan 1985
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.04 FORECAST HIGHLIGHTS

- Table 0.00 on page e shows forecast data of selected indicators of the March 1986 KEDI forecast.
- In 1986 moderate growth is expected.
- An upward trend in 1987 is anticipated. It will continue throughout 1988.
- Forecast data for 1986-1990 do not point to recession or major downturn.
- Financial outlook is optimistic.
- Federal budget deficits will keep declining in 1986 and the following years.
- This year's export-import gap will start closing to a more acceptable level.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates

INDICATOR	GNP	Index of ind. prod	Unem-ploy ment	Capacity util'n rate	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1984*	3492.0	121.8	7.52	80.8	1.750	10.4
1985:1*	3547.8	123.8	7.32	80.5	1.793	10.9
2*	3557.4	124.4	7.31	80.4	1.769	10.9
3*	3584.1	124.8	7.17	80.1	1.641	12.4
4*	3594.8	125.3	7.02	79.9	1.729	10.3
YEAR	3571.0	124.6	7.21	80.2	1.733	11.1
% change from '84	2.3	2.3	-4.2	-.7	-1.0	7.0
1986:1	3630.3	126.7	6.73	80.3	1.656	10.1
2	3658.1	127.9	6.68	80.8	1.759	10.7
3	3686.4	129.6	6.65	81.0	1.824	11.2
4	3717.3	132.8	6.63	81.3	1.750	10.8
YEAR	3673.0	129.2	6.67	80.8	1.747	10.7
% change from '85	2.9	3.8	-7.4	.8	.8	-3.8
1987:1	3755.7	135.3	6.67	81.7	1.751	10.7
2	3784.6	138.7	6.61	81.9	1.907	11.3
3	3820.5	141.3	6.52	82.3	1.940	11.5
4	3847.3	139.8	6.36	82.5	1.803	11.9
YEAR	3802.0	138.8	6.54	82.1	1.850	11.3
% change from '86	3.5	7.4	-2.0	1.5	5.9	6.1

*Historical data.

1.00 DETAILED FORECASTS

1.10 REAL GROWTH

See Tables 1.11 and 1.12
Pages 5 and 7.

AN EPIDEMIC OF GOOD NEWS!

- Manufacturing is turning around: Index of Industrial Production up .3% in January--slight, but broad-based with all major areas participating.
- New orders for durables up .4% in January.
- Construction up by $2.7 billion in January.
- Capacity utilization edged up slightly into the plus column.

KEDI disagrees with:

* A. Sommer, Chief Economist of the Conference Board who forecasts a recession early in 1987.

* Milton Friedman is even more pessimistic calling for a recession before 4th quarter of 1986. No Way!

Trends are too favorable for a downturn or recession.

How others see the GNP:

Merrill Lynch	+3.5%
Chase Econometrics	+3.1%
Blue Chip Indicators	+2.9%
Manufacturers Hanover	+3.1%
KEDI	+2.9%

1986
FORECAST
DATA

Percent Change
from
February 1986
Forecast

+ 2.78%	Private Housing Starts
+ .35%	Index Indus. Prod.
+ .06%	Capacity util.
- .13%	GNP
- .93%	Autos
- 3.02%	Unemp.

TABLE 1.12

SELECTED INDICATORS II.

Quarterly data are seasonally adjusted at annual rates.

	--Personal Cons. Expend.-			*------Retail Sales-------*		
INDICATOR	Durables	Nondurables	Services	Total n.s.a.	Durables n.s.a.	Nondurables n.s.a.
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1984*	331.1	874.4	1219.5	1297.0	464.3	832.7
1985:1*	351.5	895.7	1277.8	304.6	111.8	192.8
2*	356.5	910.2	1296.6	348.8	134.5	214.3
3*	376.0	914.5	1315.6	350.6	135.2	215.4
4*	360.3	928.6	1345.1	363.8	139.7	224.1
YEAR	361.1	912.2	1308.8	1367.8	521.2	846.6
% change from '84	9.1	4.3	7.3	5.5	12.3	1.7
1986:1	370.6	940.6	1382.4	366.3	141.3	225.0
2	386.5	952.5	1379.2	369.8	143.2	226.6
3	399.7	963.1	1389.8	375.5	144.1	231.4
4	410.9	971.4	1418.3	378.2	145.7	232.5
YEAR	391.9	956.9	1392.4	1489.8	574.3	915.5
% change from '85	8.5	4.9	6.4	8.9	10.2	8.1
1987:1	419.2	981.7	1434.2	387.4	152.2	235.2
2	425.4	985.4	1455.4	398.9	159.1	239.8
3	441.8	1003.8	1464.8	411.3	162.0	249.3
4	450.1	1114.2	1417.2	421.5	169.7	251.8
YEAR	434.1	1021.3	1525.3	1619.1	643.0	976.1
% change from '86	10.8	6.7	9.5	8.7	12.0	6.6

n.s.a. = not seasonally adjusted at annual rates.

1.00 DETAILED FORECASTS

(Continued)

1986
FORECAST
DATA

Percent Change
from
February 1986
Forecast

+ 5.05%	Retail Total
+ 1.56%	Retail Durables
+ .14%	Pers. con. exp. nondur.
- .13%	Pers. con. durables
- .68%	Retail durables
- .72%	Pers. con. exp. services

CONSUMER SPENDING

* In real terms, 1986 will remain robust, though not as strong as 1985.

* Expect a slow down in purchases of durables, mainly:
  - automobiles
  - mobile homes
  - recreational vehicles

* Fairly good sales for:
  + building materials
  + hardware
  + garden supplies

* Good outlook in 1986 for:
  + food stores
  + apparel and accessories
  + eating and drinking places

* Moderate increases:
  + general merchandise groups
  + drug and proprietary stores
  + household appliances/radio/TV

* Flat performance:
  o gasoline stations

* Service segment: will expand faster than durables and nondurables
  + transportation
  + communications
  + banking
  + legal
  + entertainment
  + fast foods

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates

	-----------Gross National Product---------------					
INDICATOR	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1984*	3492.0	2239.9	661.3	-85.0	292.5	383.3
1985:1*	3547.8	2288.6	639.6	-71.8	304.3	387.1
2*	3557.4	2303.5	655.6	-101.1	305.8	393.6
3*	3584.1	2329.6	645.0	-119.8	331.2	398.1
4*	3594.8	2330.3	654.2	-134.0	347.4	396.9
YEAR	3571.0	2313.0	648.6	-106.7	322.2	393.9
% change from '84	2.3	3.3	-1.9	25.5	10.1	2.8
1986:1	3630.3	2374.6	660.1	-127.9	325.3	398.2
2	3658.1	2377.2	669.4	-118.5	329.7	400.3
3	3686.4	2389.5	675.3	-112.3	330.4	403.5
4	3717.3	2396.5	684.2	-107.3	336.5	407.4
YEAR	3673.0	2384.4	672.2	-116.5	330.5	402.4
% change from '85	2.9	3.1	3.6	9.2	2.6	2.1
1987:1	3760.1	2421.6	689.3	-101.1	340.2	410.1
2	3788.9	2429.3	697.5	-94.5	343.9	412.7
3	3824.3	2448.9	700.2	-89.6	348.7	416.1
4	3850.8	2445.0	707.8	-74.7	352.2	420.5
YEAR	3802.0	2432.2	698.7	-90.0	346.2	414.9
% change from '86	3.5	2.0	3.9	-22.8	4.8	3.1

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

NO SIGNS OF FUELISHNESS

- US economy has spent a decade becoming more and more fuel conscious. With gasoline prices declining daily, skepticism keeps us from being lulled into complacency--how long will it last?

  This summer will probably see the interstates crowded with the recreational vehicles forced off the road by $1+ gasoline prices. Cheaper gasoline, coupled with terrorist intimidation abroad, it's shaping up for a summer to see the USA. About time, too!

- Economists at Chase Econometrics estimate that each $5 drop in barrel prices could add about half a percentage point to the growth rate of the economy, and conceivably lower inflation rate by 9/10th of a percentage point.

CONSUMER PRICE INDEX

KEDI is more optimistic than most forecasters for 1986:

KEDI	2.3%
Federal Reserve	3.5%
Allan Greenspan	5.0% mid year

1986
FORECAST
DATA

Percent Change
from
February 1986
Forecast

- 1.07%	Personal cons. expend.
- 1.79%	Producer Price Index
- .78%	GNP
- .61%	Consumer Price Index
- .35%	State local purchases
- .15%	Federal government purchases

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

	---Indexes--		*-------Price deflators--------*			
INDICATOR	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1984*	311.1	292.1	108.1	108.2	107.0	105.9
1985:1*	317.4	292.8	110.4	110.3	109.9	114.4
2*	321.2	293.7	111.3	111.3	110.4	116.1
3*	323.5	292.8	112.8	111.9	110.1	117.5
4*	326.5	296.2	112.9	113.1	110.2	119.3
YEAR	322.1	293.9	111.8	111.7	110.2	116.8
% change from '84	3.6	.6	3.5	3.2	2.9	10.3
1986:1	328.1	294.3	114.0	113.4	111.0	120.0
2	328.8	294.8	114.6	114.3	112.2	121.3
3	330.1	296.4	115.4	115.2	113.4	121.8
4	331.3	298.5	116.8	116.9	114.7	122.8
YEAR	329.6	296.0	115.2	115.0	112.8	121.5
% change from '85	2.3	.7	3.0	3.0	2.4	4.0
1987:1	333.8	302.4	117.3	117.1	115.3	124.0
2	335.4	305.6	118.0	118.0	117.2	125.2
3	337.9	308.5	119.2	118.8	119.1	127.0
4	340.6	311.7	121.4	121.9	121.3	129.1
YEAR	336.9	307.1	119.0	119.1	118.2	126.3
% change from '86	2.2	3.7	3.3	3.7	4.8	4.0

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*Historical data.

**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1986 FORECAST DATA

Percent Change from February 1986 Forecast

+10.70%	Net Exports
+ 1.39%	Federal gov't purchases
- .53%	Gross private domestic investment
- .88%	GNP
- .95%	Personal cons. exp.
- 1.05%	State local purch.

FORECAST OF GNP AND COMPONENTS ROSY!

* Compared to 1985, the 1986 structure of GNP is more proportionate considering declining imbalance in foreign trade, slower increases in personal consumption, and good increaes in business investment.

* Growth rate of nominal GNP and components preserve upward trend.

1986 compared to 1985	
GNP	2.3%
Personal cons. expend.	6.1%
Gross private dom. invest.	6.0%
Federal govt. purchases	5.1%
State & local purchases	6.2%

TABLE 1.22
NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates

INDICATOR	Gross National Product					
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	3774.1	2423.0	674.0	-59.2	312.9	423.9
1985:1*	3917.5	2525.0	657.8	-42.3	334.4	442.8
2*	3960.6	2563.3	672.8	-70.3	337.7	457.1
3*	4016.9	2606.8	666.1	-87.8	364.8	467.7
4*	4061.5	2634.0	678.0	-107.0	382.9	473.6
YEAR	3994.2	2582.5	668.7	-76.8	354.9	460.3
% change from '84	5.8	6.6	-.8	29.8	13.4	8.6
1986:1	4138.5	2693.6	700.1	-94.1	361.1	477.8
2	4192.2	2718.2	706.0	-87.5	369.9	485.6
3	4254.1	2752.6	711.2	-75.8	374.7	491.5
4	4341.8	2800.6	717.3	-62.3	386.0	500.3
YEAR	4231.7	2741.2	708.6	-79.9	372.9	488.8
% change from '85	5.9	6.1	6.0	4.0	5.1	6.2
1987:1	4405.4	2835.1	730.1	-60.5	392.3	508.5
2	4465.8	2866.2	736.2	-56.3	403.1	516.7
3	4554.0	2910.4	750.1	-50.2	415.3	528.4
4	4670.6	2981.5	764.3	-45.3	427.2	542.9
YEAR	4523.5	2980.7	745.2	-53.1	409.5	524.1
% change from '86	6.9	8.7	5.2	-33.6	9.8	7.2

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1986
FORECAST
DATA

Percent Change
from
February 1986
Forecast

+ 2.20%	Total employed.
+ 1.98%	Non-agric.
+ 1.68%	Civilian labor force
+ .36%	Population
0.00%	Agriculture
- 3.35%	Unemployment rate

RATE OF UNEMPLOYMENT DATA REDUCED!

With a more optimistic outlook, expect constantly improving job situations in:

* Manufacturing:
  + lumber and wood
  + stone, clay and glass
  + fabricated metal products
  + transportation equipment
  + food
  + paper and allied products
  + plastics

* Construction:
Improved outlook for residential construction and road repairs. Still cloudy for nonresidential, especially new office construction and public projects.

* Mining:
  + Good for coal
  + Improved for copper, uranium and lead.

* Optimistic outlook remains for service-producing industries. Most new jobs will occur in this segment.

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates

INDICATOR	Population	Civil. labor force	*-------Employment-------*			Unemployment rate
			Total	Agricult.	Non-agric.	
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1984*	237.4	113.5	105.0	3.4	101.6	7.17
1985:1*	239.8	115.2	107.1	3.4	103.4	7.30
2*	240.9	115.2	106.9	3.4	103.5	7.21
3*	242.3	115.1	107.2	3.4	103.6	7.17
4	243.7	116.2	108.0	3.4	104.6	7.02
YEAR	241.7	115.4	107.7	3.4	104.3	7.21
% change from '84	1.8	1.7	1.6	0.0	1.6	-4.19
1986:1	244.5	118.3	110.3	3.4	106.9	6.94
2	245.9	118.9	111.0	3.4	107.6	6.87
3	247.3	119.8	111.8	3.4	108.4	6.85
4	249.8	120.9	112.9	3.4	109.5	6.63
YEAR	246.9	119.5	111.5	3.4	108.1	6.63
% change from '85	2.2	3.5	3.8	0.0	3.8	-7.39
1987:1	250.7	121.7	113.6	3.4	110.2	6.82
2	252.6	122.8	114.7	3.4	111.3	6.77
3	254.3	123.4	115.4	3.4	112.0	6.73
4	256.5	124.1	116.2	3.4	112.8	6.70
YEAR	253.5	123.0	115.0	3.4	111.6	6.54
% change from '86	2.7	3.0	3.0	0.0	3.0	-1.99

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1986 FORECAST DATA

Percent Change from February 1986 Forecast

+10.05%	Permits authorized
+ 1.76%	Multi-family housing starts
+ 1.42%	Mobile home shipments
+ .10%	1-Family unit price new
+ .05%	1-Family unit price existing
0.00	Single family housing starts

CONDITIONS FOR PURCHASING A HOME ARE THE BEST IN 30 YEARS!

This is what it looks like for today's home buyers compared to 30 years ago:

	1957	1986
Median age	37	35.8
Median income	$7,300	$42,396
Median home price	$17,100	$75,000
Avg morgtage term	19 yrs	26 yrs

In spite of favorable conditions for home ownership, the percentage of Americans who own their homes has fallen in every year since reaching a peak of 65.6% in 1980.

KEDI holds to its forecast that 1986 will probably be below 1985, in spite of the Mortgage Banker's Association forecast of 1.8-1.9 million housing starts. KEDI views this as too optimistic.

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home ship-ments mil.	Permits author-ized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1984*	1.084	.665	.295	1.682	97.0	87.0
1985:1*	1.121	.674	.291	1.709	98.5	87.3
2*	1.076	.693	.285	1.731	100.6	90.4
3*	1.029	.641	.274	1.762	100.1	93.1
4	1.052	.677	.275	1.685	102.0	93.3
YEAR	1.070	.671	.281	1.722	100.3	91.0
% change from '84	-1.3	.9	-4.7	2.4	3.4	4.6
1986:1	.967	.689	.251	1.695	102.5	93.6
2	1.067	.692	.259	1.714	103.3	94.1
3	1.146	.678	.283	1.790	104.7	95.3
4	1.098	.652	.278	1.620	109.1	96.8
YEAR	1.031	.678	.268	1.705	104.9	94.9
% change from '85	-3.6	1.0	-4.8	-1.0	4.6	4.3
1987:1	1.073	.678	.282	1.681	105.4	97.1
2	1.206	.701	.301	1.807	107.9	97.6
3	1.260	.712	.317	1.902	109.1	99.4
4	1.123	.680	.295	1.884	109.9	101.3
YEAR	1.165	.693	.299	1.819	108.1	98.8
% change from '86	13.0	2.2	11.6	6.7	3.0	4.1

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1986
FORECAST
DATA

Percent Change
from
February 1986
Forecast

+ 1.35%	Total light truck sales
0.00	Dealer car Inventory
- .81%	Imports
- .93%	Total car sales
- .95%	Factory shipments
- .97&	Car sales domestic

AUTO PLANT CLOSINGS SEEM CERTAIN AS TECHNOLOGY AND DEMAND SHIFT GEARS FOR THE NEXT DECADE.

Rear-wheel-drive taking a backseat to up-front sales.

With the next generation of midsize cars on the drawing boards, fewer models will be produced with real wheel drive. This forward shift has left automakers with middle-aged plants that will not be re-tooled for the 21st century.

Auto analysts predict that 6 to 10 of the existing 50 auto plants in the US could be closed permanently in the next few years. This is not caused by a lack of demands for new cars, but rather by increased imports and Japanese car makers building state-of-the-art assembly plants in the US.

Like it or not, a lot of auto workers are going to be learning how to sip green tea and bow with toothy grins if they want to stay on the assembly line. "O-hai-O-go zai-mas" is destined to replace "good morning" at the time clocks in too many auto factories of the next century.

Look for low interest rates to become a permanent fixture in show rooms. The incentives work well as evidenced by record profits of the last two years for the car builders.

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1984*	10.4	8.0	2.4	1.4	8.0	3.3
1985:1*	10.9	8.4	2.4	1.6	8.3	3.7
2*	10.9	8.2	2.7	1.6	8.0	3.6
3*	12.4	9.5	2.9	1.2	9.3	3.6
4*	10.1	6.8	3.3	1.3	7.9	3.8
YEAR	10.7	8.2	2.8	1.3	8.4	3.7
% change from '84	2.9	2.8	17.7	-7.1	4.7	11.4
1986:1	10.1	7.1	3.0	1.7	7.6	3.5
2	10.7	7.7	3.0	1.6	7.9	3.7
3	11.2	7.9	3.3	1.5	8.0	3.9
4	10.8	7.8	3.0	1.4	7.8	3.9
YEAR	10.7	7.6	3.1	1.4	7.8	3.8
% change from '85	-3.8	-12.7	8.8	7.7	-6.6	2.0
1987:1	10.7	7.8	2.9	1.6	7.9	3.6
2	11.3	8.1	3.2	1.7	8.1	3.9
3	11.5	8.3	3.2	1.8	8.4	4.2
4	11.9	8.9	3.0	1.6	8.7	4.1
YEAR	11.3	8.3	3.1	1.6	8.3	4.0
% change from '86	6.1	6.1	0.0	14.3	5.8	5.3

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

CONGRESSIONAL BUDGET OFFICE (CBO) MODIFIES PESSIMISTIC POSITION--- BUT NOT ENOUGH.

Traditionally, the CBO has been wide of the mark in its forecasting, but recently released figures are more realistic even if pessimistic.

To illustrate, one year ago the CBO predicted the federal deficit in fiscal 1990 to be $300 billion. New figures from CBO have dropped that forecast figure to $120 billion for FY 1990.

FISCAL DEFICIT
(in bil.$, fiscal years)

Fiscal Year	CBO	KEDI
current	$208	$194
1987	$181	$169
1988	$165	$151
1989	$144	$136
1990	$120	$107
1991	$104	$74

1986 FORECAST DATA

Percent Change from February 1986 Forecast

+ .35%	State local surplus/ deficit
+ .31%	State local income taxes
+ .25%	Surplus/ deficit
- .05%	Federal income taxes
- 1.02%	Corp. profits tax accru.
- 1.97%	State local corp. ta accru

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates

INDICATOR	*-----FEDERAL-----* Income taxes	Corp. profits tax accru.	Surplus /deficit	*---STATE AND LOCAL----* Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	311.3	74.4	-172.9	130.5	19.2	64.4
1985:1*	363.9	65.9	-165.6	137.8	17.5	63.2
2*	321.8	65.0	-209.1	141.1	17.3	57.3
3*	355.4	68.9	-201.3	142.9	18.5	56.9
4*	362.1	74.2	-196.8	146.3	19.4	54.6
YEAR	350.8	68.5	-193.2	142.0	18.2	58.0
% change from '84	12.7	-7.9	11.7	8.8	-5.3	-9.9
1986:1	376.5	77.0	-188.5	148.4	20.0	54.1
2	380.7	79.4	-184.6	150.8	21.1	55.8
3	386.1	81.1	-178.9	156.0	21.7	57.6
4	394.0	83.2	-175.0	159.1	21.9	59.3
YEAR	384.3	80.2	-181.8	153.6	21.2	56.7
% change from '85	9.6	17.0	-5.9	8.1	16.5	-2.2
1987:1	403.8	85.4	-171.9	163.1	22.1	61.3
2	414.0	90.1	-168.4	164.9	22.9	62.5
3	422.8	93.4	-161.3	166.9	23.7	64.1
4	438.1	96.5	-157.2	170.5	24.4	65.3
YEAR	419.7	91.3	-164.7	166.3	23.3	63.3
% change from '86	9.2	13.9	-9.4	8.3	9.9	11.6

---

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1986 FORECAST DATA

Percent Change from February 1986 Forecast

+ 1.40%	Average weekly earnings
+ .72%	Personal savings
+ .39%	Personal disp. income
+ .34%	Personal income
+ .03%	Comp. of emp.
- .02%	Corp. after tax profits

LOW PERSONAL SAVING RATE OFFSET BY HIGHER SAVINGS IN OTHER SECTORS

Personal income and personal disposable income in 1986 will grow slightly faster than in 1985.

Some economists worry about the low personal saving rate, but KEDI sees no cause for concern. It will remain low but will have no effect on the economy.

Higher savings will occur in:

- Business sector
- State and local governments
- Inflow of foreign capital.

Business savings will be up by 11% in 1986.

Retained earnings forecasts by other forecasters appear too high:

* Economist Lacy Hunt	+ 19%
* First Interstate Bank/LA	+ 20%

On the other hand, Blue Chip Indicators are too low with a retained earnings forecast of only 9%.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1984*	3111.9	2670.2	2221.3	144.0	172.5	368.5
1985:1*	3240.9	2739.2	2320.4	136.6	130.9	374.6
2*	3280.1	2817.7	2356.9	136.4	167.2	378.5
3*	3298.5	2800.2	2358.2	141.1	102.6	384.6
4*	3354.1	2854.6	2427.2	147.2	116.0	394.2
YEAR	3293.4	2802.9	2365.7	140.3	129.2	383.0
% change from '84	5.8	5.0	6.5	-2.6	-25.1	3.9
1986:1	3468.2	2943.3	2461.4	146.7	120.8	406.0
2	3500.8	2969.3	2519.8	157.0	126.9	404.7
3	3574.7	3032.6	2447.1	158.0	131.6	410.1
4	3644.9	3091.8	2596.8	164.2	138.4	412.5
YEAR	3547.2	3009.3	2506.3	156.5	129.4	418.7
% change from '85	7.7	7.4	5.9	11.5	.2	9.3
1987:1	3718.9	3152.0	2650.3	168.8	140.1	423.5
2	3803.9	3225.0	2695.0	174.2	144.0	427.7
3	3879.2	3289.5	2760.6	180.3	146.8	432.8
4	3921.1	3312.5	2816.2	185.1	151.9	439.6
YEAR	3830.8	3244.8	2730.5	177.1	145.7	430.9
% change from '86	8.0	7.8	8.9	13.2	12.6	2.9

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1986
FORECAST
DATA

Percent Change from February 1986 Forecast

+ .13%	Mortg. at S & L Assns.
+ .11%	Consumer install. credit
+ .13%	Currency & demand deposits
0.00%	Time deposit adjust.
- .05%	Large denom. time deposits
- .14%	Comm. & industrial loans at banks

FED IS NOT ABOUT TO EASE MONEY ACCORDING TO VOLCKER.

Further easing of monetary conditions would bring conditions that would fuel inflation:

* Low value of the international dollar alreading pushing up prices.

* Declines in productivity.

* More money available

* Lower interest rates

* More credit

All this equals inflation.

Indications are that Fed's Open Market Committee February meeting decided not to further loosen the monetary conditions, and to maintain the 3.8% growth range for M1, and 4-9% growth range for M2. In 1985, M1 rose by 12%.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits adjusted, M2" are averages of daily figures; other data are end of period figures.

INDI-CATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit n.s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	545.0	2277.4	460.5	470.7	416.8	555.3
1985:1*	568.1	2416.4	471.6	474.1	423.6	559.3
2*	582.6	2448.2	495.8	478.4	424.2	569.3
3*	604.5	2511.2	524.4	483.8	433.6	576.9
4	616.8	2559.7	539.2	486.1	430.0	581.9
YEAR	593.0	2483.9	539.2	486.1	430.0	581.9
% change from '84	8.8	9.1	17.1	3.3	3.2	4.8
1986:1	621.6	2605.0	534.8	492.0	429.1	588.7
2	628.4	2659.1	552.9	496.9	431.2	591.3
3	634.2	2793.8	563.2	508.3	432.9	599.6
4	638.3	2798.7	568.9	515.1	436.9	608.7
YEAR	630.6	2714.2	568.9	515.1	436.9	608.7
% change from '85	6.3	9.3	5.5	6.0	1.6	4.6
1987:1	649.8	2842.3	577.5	519.3	438.0	621.4
2	663.7	2910.9	588.9	523.9	440.2	618.6
3	676.2	2966.4	601.4	531.6	444.5	629.7
4	685.3	3027.3	609.7	544.7	448.3	643.1
YEAR	668.8	2936.7	607.7	544.7	448.3	643.1
% change from '86	6.0	8.2	6.8	5.7	2.6	5.7

*Historical data. n.s.a: not seasonally adusted.
s.a.: seasonally adjusted at annual rates.
Data for M1 and M2: before February revision.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1986 FORECAST DATA

Percent Change from February 1986 Forecast

+ 4.11%	S & P's 500 avg
- .93%	Prime rate
- 4.97%	Treas. bills 3 mo. yield
- 5.62%	Aaa corp. bond rate
- 6.62%	Conv. mortg. rate
- 8.46%	20 yr. Govt. bonds yields

CONDITIONS FOR DRASTIC INTEREST RATE REDUCTIONS NOT APPRARENT IN KEDIs VIEW

* Recent reductions in interest rates in Japan and Germany indicate a growing pressure on the Fed to ease credit conditions; however, KEDI maintains its forecast that some declines of a more permanent nature could occur in the second half of this year.

* The economy is doing well while inflationary pressures continue to accumulate.

* KEDI sees declines in short-term rates in the second half of 1986, extending into 1987.

* Long-term rates are expected to continue declining but at a much slower pace than in the first half of 1986.

* Expect conventional mortgage rates to go down an additional .5%-1.% in second half 1986.

* Long-term government bonds will decline by 1%, while corporate bonds drop by 1.-1.5% compared to first half of 1986.

* KEDI takes exception (again) with the Milton Friedman prediction for interest rates to go up in the second half of 1986.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P's 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1984*	9.52	12.04	13.84	12.65	12.36	160.50
1985:1*	8.18	10.54	13.28	12.06	11.41	177.30
2*	7.52	10.20	12.76	11.63	11.15	183.48
3*	7.11	9.50	12.58	11.03	10.74	188.30
4	7.13	9.50	12.19	10.90	10.16	204.46
YEAR	7.48	9.93	12.70	11.41	10.87	188.38
% change from '84	-21.4	-17.5	-8.2	-9.8	-12.1	17.4
1986:1	7.03	9.50	11.27	10.14	9.16	214.30
2	6.90	9.16	10.65	10.03	8.43	223.20
3	6.68	9.02	10.25	9.61	8.21	229.57
4	6.53	8.76	10.71	9.52	8.14	229.73
YEAR	6.79	9.30	10.72	9.82	8.66	220.45
% change from '85	-9.4	-6.4	-15.6	-13.9	-20.3	17.0
1987:1	6.27	8.23	10.54	9.31	8.06	230.51
2	6.21	8.20	10.08	9.14	7.82	228.43
3	6.63	8.15	10.32	9.27	6.64	231.47
4	6.58	8.50	10.64	9.41	6.83	235.48
YEAR	6.42	8.75	10.39	9.28	7.34	227.47
% change from '86	-5.3	-5.9	-3.0	-5.5	-15.3	3.2

*Historical data.

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Producer Price Index for Finished Goods in 1985 has been selected for comparison. The actual figure has been calculated from the U. S. Department of Commerce data for the January-December 1985 period, (Survey of Current Business, U. S. Dept. of Commerce, monthly, Blue pages). Forecast data are in Business Forecasts 1985 (Federal Reserve Bank of Richmond, Virginia, February 1985). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
DProducer Price Index, Finished Goods (1967=100)
Actual figure: 293.9

Forecaster (and page in source)	**Date of Forecast**	**Forecast**	**Accuracy %**
J. A. Livingston, The Philadelphia Inquirer, p. 10	12/30/84	300.2	+2.1
Evans Economics, Inc., p. 26	12/21/84	294.2	+ .1
Chase Econometrics, p. 28	12/26/84	317.1	+7.9
Kent Economic and Development Institute, p. 32	**1/1/85**	**299.5**	**-1.9**
Merrill Lynch Economics, p. 36	1/14/85	297.7	+1.3
Chemical Bank, p. 37	1/15/85	299.3	+1.8
Armco, Inc., p. 41	1/24/85	318.5	+8.4

Care should be exercised when interpreting the data. Though the Business Forecasts 1985 indicates that the Producer Price Index is understood as Producer Price Index for "Finished Goods," some forecasters may have different definitions.

4.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Durables,	SCB, Blue pages
	Nondurables	SCB, Blue pages
	Services	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	SCB, Blue pages
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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April 1, 1986

Prepared by the staff of

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KEDI ECONOMIC SURVEY

April 1, 1986

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SOURCES:

U.S.Department of Commerce revised estimates of 1984:4 National Income and Product data, March 20, 1986.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, March 1986.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Business capital equipment orders on the rise--up a healthy 17.%5 in February.

Prices

Look for a strong rebound in 1987 in purchases of durables--mainly cars, household equipment and appliances.

Employment & Labor

Unemployment to continue easing downward despite gas and oil pains.

Housing

February's drop of 3.5% in housing starts indicates that 1986 will not be as good as many forecasters maintain.

Automobiles

Dealer car inventories climb as sales take a nose dive late in March.

Budgets

Congressional Budget Office forecast of budget deficit causes considerable rethinking.

Income

Personal income and personal disposable income responding to spring thaw with modest gains.

Money & Credit

KEDI assumes that the Federal Reserve policy will lead to further easing, but not in gargantuan proportions sine in 1985.

Interest Rates, Yields & Securities Prices

Interest rates will continue a gradual slide through the rest of 1986. Do not expect drastic cuts.

0.02 ASSUMPTIONS

		Last Update
1.	In 1986, the weighted price of oil will keep declining; in 1987 it will level off and continue at that level in the 1988-1990 period.	Jan 1986
2.	A longer-lasting relaxation in monetary and credit policies will start in the second quarter of 1986, and will continue into the first part of 1987.	March 1986
3.	In 1986 and 1987 good crops in all main producing countries are anticipated.	Jan 1984
4.	Foreign trade with China will expand in 1986 and following years.	Jan 1984
5.	Average rates of growth in 1984-1990 in major industrial countries are anticipated: West Germany 3.1%; Italy 2.4%; Great Britain 2.5%; France 2,6%; Japan 2.9%.	Jan 1985
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the April 1986 KEDI forecast.

* In 1986 moderate growth is expected.

* An upward trend in 1987 is anticipated. It will continue throughout 1988.

* Forecast data for 1986-1990 do not point to recession or major downturn.

* Financial outlook is optimistic.

* Federal budget deficits will keep declining in 1986 and the following years.

* This year's export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

Indicator	Unit	1985	1988	1989	1990
Gross national	bil. 82$	3570.0	3955.8	4094.2	4200.7
product, p. 5	% change	2.2	4.0	3.5	2.6
Index of indust.	1967=100	124.6	145.9	151.9	157.5
prod., p. 5	% change	2.3	5.6	4.1	3.7
Capacity	%	80.3	82.8	82.1	81.4
utiliz., p. 5	% change	-.6	1.0	-.9	-.8
Unemployment	%	7.2	6.6	6.5	6.6
rate, p. 5	% change	-4.2	-3.9	1.1	1.0
Private housing	mil.units	1.7	2.1	2.0	2.0
starts, p. 5	% change	-1.0	9.9	-4.1	-2.4
Car sales,	mil.units	11.1	12.6	12.2	12.1
p. 5	% change	7.0	10.3	-2.8	-.6
Implicit GNP	1972=100	111.9	122.3	127.8	133.1
price def., p. 9	% change	3.5	3.7	4.5	4.1
Consumer Price	1967=100	322.1	344.1	357.2	371.5
Index, p. 9	% change	3.6	3.1	3.8	4.0
Prod.Price Index	1967=100	293.9	315.0	329.8	339.4
(fin.goods),p.9	% change	.6	4.0	4.7	2.9
Federal Deficit	bil. $	-200.1	-148.5	-126.1	-105.2
p. 19	% change	15.7	-11.0	-15.1	-16.6
Personal Income	bil. $	3293.4	3986.5	4289.5	4602.6
p. 21	% change	5.8	7.9	7.6	7.3
Prime Rate	%	9.9	7.8	8.6	9.4
p. 25	% change	-17.5	-3.7	9.8	9.2
Mortgage Rate	%	12.7	9.9	10.3	9.7
p. 25	% change	-8.4	-3.0	3.6	-5.9
Currency+demand	bil. $	593.6	709.5	749.2	783.7
deposits, p. 23	% change	8.9	6.8	5.6	4.6
Commercial+ind.	bil. $	492.3	570.1	584.9	596.0
loans, p. 23	% change	5.0	5.1	2.6	1.9
Raw steel	mil.sh.tons	88.1	93.0	93.8	94.2
production	% change	-4.8	1.8	-.8	.3
Electric power	mil.kw-hr	2576	3117	3294	3485
production	% change	6.5	6.4	4.9	5.7
Bituminous coal	mil.sh.tons	900	969	1050	1098
production	% change	1.2	1.9	.4	1.3
Crude oil	avg. daily bbl.	3279	2514	3138	3141
output	% change	.9	-2.4	-1.3	.9
Retail sales	bil. $	1362.7	1740.4	1830.9	1946.3
p. 7	% change	4.9	7.4	5.2	6.3

Numbers in "% change" rows show percent changes over the previous year.

1986
FORECAST
DATA

Percent Change
from
March 1986
Forecast

+11.71%	Private Housing Starts
+ 3.19%	Umemp.
+ 3.04%	Autos
+ .12%	Capacity util.
+ .03%	GNP
- .06%	Index Indus. Prod.

1.10 REAL GROWTH

See Table 1.11
Page 5

BUSINESS CAPITAL EQUIPMENT ORDERS UP BY 17.5% IN FEBRUARY

KEDI agrees with Commerce Secretary Malcolm Baldrige prediction of further strength in industrial production in the coming months, based on the following factors:

* New impact of lower oil prices.

* Declines in interest rates.

* International value of the dollar.

KEDI also agrees with:

* Michael Evans of the Washington based forecasting firm believes the declining value of the dollar is encouraging business spending plans which will lead to a solid base for expansion in capital spending this year.

* Jerry Jasinowski, chief economist of the National Association of Manufacturers believes that the upswing in nondefense durables may be an early sign that construction, autos, computers and capital spending are about to show some rebound.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates

INDICATOR	GNP	Index of ind. prod	Unem-ploy ment	Capacity util'n rate	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1984*	3492.0	121.8	7.52	80.8	1.750	10.4
1985:1*	3547.8	123.8	7.32	80.5	1.793	10.9
2*	3557.4	124.4	7.31	80.4	1.769	10.9
3*	3584.1	124.8	7.17	80.3	1.641	12.4
4*	3590.8	125.3	7.02	80.1	1.729	10.3
YEAR	3570.0	124.6	7.21	80.3	1.733	11.1
% change from '84	2.2	2.3	-4.2	-.6	-1.0	7.0
1986:1	3630.3	126.6	7.02	80.2	2.024	11.1
2	3659.7	127.7	6.87	80.8	1.966	10.9
3	3687.9	129.6	6.81	81.1	1.865	11.2
4	3717.8	132.6	6.83	81.5	1.741	10.9
YEAR	3673.9	129.1	6.88	80.9	1.899	11.0
% change from '85	2.9	3.7	-4.5	.7	9.6	-.9
1987:1	3756.3	135.3	6.85	81.9	1.858	10.8
2	3786.3	138.4	6.74	82.0	1.960	11.4
3	3823.2	139.1	6.69	82.3	1.965	11.5
4	3848.8	139.9	6.53	82.5	1.882	11.9
YEAR	3803.7	138.2	6.70	82.2	1.916	11.4
% change from '86	3.5	7.0	-2.6	1.6	.9	3.4

*Historical data.

1.12 CONSUMER SPENDING AND RETAIL SAILS

See Table 1.12 - page 7

1986
FORECAST
DATA

Percent Change
from
March 1986
Forecast

+ .46%	Retail nondur.
+ .09%	Retail Total
- .48%	Retail durables
- 1.84%	Pers. con. durables
- 2.90%	Pers. con. exp. nondur.
- 5.32%	Pers. con. exp. services

LOOK FOR A STRONG REBOUND IN 1987 IN PURCHASES OF DURABLES--MAINLY CARS, HOUSEHOLD EQUIPMENT AND APPLIANCES.

In 1986 consumer spending will increase over 1985 levels by:

* Durables	$27.7 bil.
* Nondurables	$43.4 bil.
* Services	$68.3 bil.

In 1987 consumer spending will increase over 1986 levels by:

* Durables	$36.9 bil.
* Nondurables	$36.1 bil.
* Services	$67.3 bil.

RETAIL SALES will rebound in March from a poor showing in February and will continue in an upward trend. Most large retailers expected a strong Easter season spurred on by exceptionally good weather throughout the country.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	--Personal Cons. Expend.-			*------Retail Sales-------*		
INDICATOR	Durables	Nondurables	Services	Total n.s.a.	Durables n.s.a.	Nondurables n.s.a.
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr. 1984*	331.1	874.4	1219.5	1297.0	464.3	832.7
1985:1*	351.5	895.7	1277.8	304.6	111.8	192.8
2*	356.5	910.2	1296.6	348.8	134.5	214.3
3*	376.0	914.5	1315.6	350.6	135.2	215.4
4*	362.0	928.3	1344.6	363.9	139.5	224.4
YEAR	361.5	912.2	1308.6	1367.9	521.0	846.9
% change from '84	9.2	4.3	7.3	5.5	12.2	1.7
1986:1	369.6	940.0	1373.5	365.8	140.9	224.9
2	384.0	951.5	1364.8	366.2	143.0	223.2
3	397.1	960.4	1379.1	370.1	143.9	226.2
4	406.3	970.5	1390.4	375.3	145.1	230.2
YEAR	389.2	955.6	1376.9	1477.4	572.9	904.5
% change from '85	7.7	4.8	5.2	8.0	10.0	6.8
1987:1	415.3	978.7	1402.5	387.1	152.0	235.1
2	420.7	980.4	1447.8	398.9	158.8	240.1
3	430.9	993.5	1452.0	411.6	161.7	249.9
4	437.4	1014.1	1474.3	422.9	167.4	255.5
YEAR	426.1	991.7	1444.2	1620.5	639.9	980.6
% change from '86	9.5	3.8	4.9	9.7	11.7	8.4

n.s.a. = not seasonally adjusted at annual rates.

1.13 REAL GNP

See Table 1.13
Page 9

1985 WAS STRONGER THAN RECENTLY RELEASED 2.2% INDICATES.

* Imbalance in imports appears as a negative item in GNP calculations. This OPTICALLY reduces the total GNP figure.

Here is what it really looks like in constant 82$:

	US Dept Commerce GNP	Net exports	GNP + exports net exports not incl.
1984	3492.0	-85.0	3947.9
1985:1	3547.8	-71.8	3988.3
1985:2	3557.4	-110.1	4025.7
1985:3	3584.1	-119.7	4057.4
1985:4	3590.8	-140.8	4090.8
Total 1985	3570.0	-110.6	4040.6
Rate of Growth	2.2%		2.5%

1986
FORECAST
DATA

Percent Change
from
March 1986
Forecast

+ 3.48%	Net Exports
+ 1.07%	Fed. govt. purch.
+ .10%	Gross pvt.dom. invest.
+ .08%	State local purch.
+ .03%	GNP
+ .02%	Pers. cons. exp.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates

INDICATOR	Gross National Product: Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1984*	3492.0	2239.9	661.3	-85.0	292.5	383.3
1985:1*	3547.8	2288.6	639.6	-71.8	304.3	387.1
2*	3557.4	2303.5	655.6	-101.1	305.8	393.6
3*	3584.1	2329.6	645.0	-119.8	331.2	398.1
4*	3590.8	2330.4	655.7	-140.7	349.0	396.5
YEAR	3570.0	2313.0	649.0	-108.3	322.6	393.8
% change from '84	2.2	3.3	-1.9	27.5	10.3	2.7
1986:1	3630.3	2375.1	660.9	-133.7	329.4	398.6
2	3659.7	2377.7	669.9	-122.4	333.5	401.0
3	3687.9	2389.5	676.0	-115.7	334.2	403.9
4	3717.8	2396.9	684.8	-110.4	339.1	407.4
YEAR	3673.9	2384.8	672.9	-120.5	334.1	402.7
% change from '85	2.9	3.1	3.7	11.3	3.6	2.3
1987:1	3756.3	2417.4	689.8	-105.1	343.7	410.5
2	3786.3	2428.5	698.1	-99.3	346.4	412.6
3	3823.2	2450.1	701.2	-95.6	351.2	416.3
4	3848.8	2456.4	708.3	-90.6	354.2	420.5
YEAR	3803.7	2438.1	699.4	-97.6	348.9	415.0
% change from '86	3.5	2.2	3.9	-19.0	4.4	3.0

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

OIL PRICES TUMBLE AS OPEC CARTEL CRUMBLES

Falling oil prices has pushed thoughts of inflation to the back burner--at least for now. That is right where it should NOT be.

* Nobody at The Fed shows much concern for the nation's exploding money supply.

* Too many legislators are convinced that the budget deficit will shrink along with falling oil prices.

* History teaches us that everytime we relax inflationary policies, they come back to haunt us.

* Increasing demand for consumer goods puts inflationary pressures to work as too many bucks chase too few goods.

* No one is in a savings mood with the low interest rates.

Speculation runs high as to where oil prices will go. KEDI agrees with Chevron Chairman Keller who says "OPEC will reach some sort of agreement on prices by summer." He forecast crude oil prices of about $20 per barrel by year-end.

1986
FORECAST
DATA

Percent Change
from
March 1986
Forecast

- .97%	Producer Price Indexd.
- .76%	Personal cons. expend.
- .50%	GNP
- .43%	Consumer Price Index
- .22%	Fed. govt. purch.
- .02%	State local purch.

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

	---Indexes--		*-------Price deflators--------*			
INDICATOR	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1984*	311.1	292.1	108.1	108.2	107.0	105.9
1985:1*	317.4	292.8	110.4	110.3	109.9	114.4
2*	321.2	293.7	111.3	111.3	110.4	116.1
3*	323.5	292.8	112.8	111.9	110.1	117.5
4*	326.5	296.2	113.1	113.0	109.7	119.4
YEAR	322.1	293.9	111.9	111.6	110.0	116.8
% change from '84	3.6	.6	3.5	3.2	2.8	10.3
1986:1	327.6	292.8	113.7	113.0	110.6	120.0
2	327.7	290.9	114.1	113.6	112.0	121.3
3	328.1	293.1	114.9	114.5	113.1	121.8
4	329.3	295.7	115.8	115.4	114.5	122.8
YEAR	328.2	293.1	114.6	114.1	112.5	121.5
% change from '85	1.9	-.3	2.4	2.2	2.3	4.0
1987:1	330.8	297.3	116.3	115.7	115.0	124.0
2	332.4	300.4	117.5	117.3	116.8	125.2
3	334.6	305.5	118.2	117.4	117.9	127.0
4	337.2	308.4	119.8	119.1	119.7	129.1
YEAR	333.8	302.9	118.0	117.4	117.3	126.3
% change from '86	1.7	3.3	2.9	2.8	4.3	4.0

---

*Historical data.

**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1986
FORECAST
DATA

Percent Change
from
March 1986
Forecast

+ 4.10%	Net Exports
+ .84%	Federal gov't purchases
+ .09%	State local purch.
- .14%	Gross private dom. invest.
- .48%	GNP
- .71%	Personal cons. exp.

DOWNWARD REVISIONS IN FORECAST DATA CASUED BY PRICE DEFLATORS.

- PERSONAL CONS. EXPENDITURES. A slowing down in 1986 compared to 1985 since consumers will not increase purchases as much as they did in 1985. Consumers are too much in debt already.
- GROSS PRIVATE DOM. INVESTMENT. KEDI is optimistic about business capital outlays despite drastic cuts make by oil companies.
- NET EXPORTS. Good outlook throughout 1986.
- GOVERNMENT EXPENDITURES. This year, state and local governments will increase their spending faster than the federal government.

	1986
Fed. Govt.	+5.8%
State and local	+6.4%

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates

INDICATOR	Gross National Product					
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	3774.1	2423.0	674.0	-59.2	312.9	423.9
1985:1*	3917.5	2525.0	657.8	-42.3	334.4	442.8
2*	3960.6	2563.3	672.8	-70.3	337.7	457.1
3*	4016.9	2606.8	666.1	-87.8	364.8	467.7
4*	4059.3	2634.8	688.7	-113.4	384.7	472.5
YEAR	3994.9	2581.9	671.4	-78.5	355.4	460.0
% change from '84	5.8	6.6	-.4	32.5	13.6	8.5
1986:1	4127.7	2683.1	700.1	-98.2	364.3	478.3
2	4175.7	2700.3	705.0	-89.5	373.5	486.4
3	4237.4	2736.6	710.3	-79.4	378.0	492.0
4	4305.2	2767.2	715.1	-65.6	388.3	500.3
YEAR	4211.5	2721.8	707.6	-83.2	376.0	489.2
% change from '85	5.4	5.4	5.4	6.0	5.8	6.4
1987:1	4368.6	2796.5	730.2	-62.4	395.3	509.0
2	4448.9	2848.9	736.0	-57.2	404.6	516.6
3	4519.0	2876.4	750.8	-50.9	414.1	528.7
4	4610.9	2925.8	764.3	-46.1	424.0	542.9
YEAR	4486.4	2905.0	745.3	-54.1	409.5	524.3
% change from '86	6.5	6.7	5.3	-34.9	8.9	7.2

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1986 FORECAST DATA

Percent Change from March 1986 Forecast

+ 3.81%	Unemployment rate
- .01%	Population
- .15%	Non-agric.
- .21%	Civilian labor force
- .41%	Total employed
- 8.82%	Agriculture

UNEMPLOYMENT TO CONTINUE EASING DOWNWARD DESPITE GAS AND OIL PAINS.

- Employment climbed by 192,000 jobs in March. This was generated in the service industries and more than offset a decline of 79,000 goods-producing jobs, according to the Labor Department.
- Manufacturing lost 42,000 jobs in March after several months of small gains.
- Mining lost 29,000 jobs in March reflecting the drop in gas and oil operations.

KEDI sees the data as a smooth continuation in employment growth since June of 1985 with steady declines for unemployment rate forecast through 1986.

UNEMPLOYMENT RATES FOR MARCH 1986

California	6.6%
Florida	6.2%
Illinois	8.9%
Massachusetts	3.7%
Michigan	8.9%
New Jersey	4.2%
New York	6.7%
North Carolina	5.8%
Ohio	7.4%
Pennsylvania	7.6%
Texas	8.1%

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates

			-------Employment-------			
INDICATOR	Population	Civil. labor force	Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1984*	237.4	113.5	105.0	3.4	101.6	7.52
1985:1*	239.8	115.2	107.1	3.4	103.4	7.32
2*	240.9	115.2	106.9	3.3	103.6	7.31
3*	242.3	115.5	107.2	3.0	104.2	7.17
4	243.7	116.2	108.0	3.1	104.9	7.02
YEAR	241.7	115.4	107.5	3.2	104.3	7.21
% change from '84	1.8	1.7	1.6	-5.9	2.6	-4.19
1986:1	244.5	118.3	110.0	3.1	106.9	7.02
2	245.9	118.7	110.5	3.1	107.4	6.87
3	247.3	119.6	111.5	3.1	108.4	6.81
4	249.8	120.4	112.2	3.1	109.1	6.83
YEAR	246.9	119.2	111.0	3.1	107.9	6.88
% change from '85	2.2	3.3	3.5	-3.1	3.5	-4.48
1987:1	250.7	121.6	113.3	3.1	110.2	6.85
2	252.6	122.6	114.3	3.1	111.2	6.74
3	254.3	123.2	115.0	3.1	111.9	6.69
4	256.5	123.9	115.8	3.1	112.7	6.53
YEAR	253.5	122.8	114.6	3.1	111.5	6.70
% change from '86	2.7	3.0	3.1	0.0	3.3	-2.62

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

FEBRUARY'S DROP OF 3.5% IN HOUSING STARTS INDICATES THAT 1986 WILL NOT BE GOOD AS MANY FORECASTERS MAINTAIN.

Housing Unit Starts and Permits
(in mil. units)

	1986 Jan	Feb
Total	2.056	1.985
Single family	1.357	1.280
Multi-family	.699	.777
Permits authorized	1.907	1.776

* Decline was caused by a drop in single family units.

* Multi-family units are always volatile with no stable trend since they depend a great deal on subsidies.

* Drop in permits is an indicator of activities.

* Mortgage rate are declining, still many prospective buyers feel rates will drop further causing delays in purchases.

1986
FORECAST
DATA

Percent Change
from
March 1986
Forecast

+17.00%	Single family housing starts
+ 4.24%	Permits authorized
+ 2.99%	Mobile home shipments
+ 2.18%	Multi-family housing starts
+ .07%	1-Family unit price new
- .53%	1-Family unit pric existi

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home shipments mil.	Permits authorized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1984*	1.084	.665	.295	1.682	97.0	87.0
1985:1*	1.121	.674	.277	1.709	98.5	87.3
2*	1.076	.693	.281	1.731	100.6	90.4
3*	1.029	.641	.285	1.762	100.8	92.5
4*	1.060	.680	.291	1.736	102.3	90.2
YEAR	1.071	.672	.283	1.735	100.5	90.1
% change from '84	-1.2	1.1	-3.9	3.1	3.7	3.6
1986:1	1.284	.740	.272	1.824	102.5	91.6
2	1.267	.699	.268	1.796	103.4	94.0
3	1.183	.682	.286	1.790	104.8	95.2
4	1.091	.650	.278	1.699	109.2	96.8
YEAR	1.206	.693	.276	1.777	105.0	94.4
% change from '85	12.6	3.1	-2.6	2.5	4.4	4.8
1987:1	1.179	.679	.288	1.697	105.5	97.3
2	1.246	.714	.311	1.849	107.9	97.8
3	1.278	.726	.319	1.985	109.4	99.6
4	1.195	.687	.299	1.884	110.7	101.9
YEAR	1.224	.702	.304	1.854	108.4	99.2
% change from '86	1.5	1.3	10.2	4.3	3.2	5.0

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1986 FORECAST DATA

Percent Change
from
March 1986
Forecast

+14.29%	Dealer car Inventory
+ 3.04%	Car sales domestic
+ 1.97%	Total light truck sales
+ .32%	Factory shipments
- .81%	Imports

DEALER CAR INVENTORIES CLIMB AS SALES TAKE A NOSE DIVE LATE IN MARCH.

* Seasonally adjusted selling rate slipped to 6.8 million, from a rate of 7.5 million early in March against an annual rate of 8.4 million in March 1985.

* Bulging lots of unsold cars should soon bring a new wave of incentives and low interest rate deals to aid the lagging sales pace.

* Honda sales increased 26.2% in the same period.

IMPORT DEALERSHIPS GROWING

* Dealerships selling imported cars jumped 45% in 1985 to a record 17,966, according to Automotive News.

* Gains were mostly in Chevrolet dealerships adding the Japanese-made Spectrum and Sprint, as well as Lincoln-Mercury dealers who are offering the German-built Merkur.

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1984*	10.4	8.0	2.4	1.4	8.0	3.3
1985:1*	10.9	8.4	2.4	1.6	8.3	3.7
2*	10.9	8.2	2.7	1.6	8.0	3.6
3*	12.4	9.5	2.9	1.2	9.3	3.6
4*	10.3	7.8	3.3	1.3	7.9	3.9
YEAR	11.1	8.5	2.8	1.3	8.4	3.7
% change from '84	7.0	5.9	17.7	-7.1	4.7	12.1
1986:1	11.1	8.1	3.0	1.7	7.6	3.7
2	10.9	7.9	3.0	1.6	7.9	3.9
3	11.2	7.9	3.3	1.5	8.0	3.9
4	10.9	7.9	3.0	1.6	7.8	4.0
YEAR	11.0	8.0	3.1	1.6	7.8	3.9
% change from '85	-.9	-9.7	8.8	23.1	-6.6	4.7
1987:1	10.8	7.9	2.9	1.6	7.9	3.7
2	11.4	8.2	3.2	1.7	8.1	3.9
3	11.5	8.3	3.2	1.8	8.4	4.2
4	11.9	8.9	3.0	1.6	8.7	4.3
YEAR	11.4	8.3	3.1	1.6	8.3	4.0
% change from '86	3.4	3.4	0.0	0.0	5.8	3.9

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1986
FORECAST
DATA

Percent Change
from
March 1986
Forecast

+ 3.35%	State local surplus/ deficit
+ .31%	State local income taxes
+ .25%	Surplus/ deficit
- .05%	Federal income taxes
- 1.02%	Corp. profits tax accru.
- 1.97%	State local corp. t accr

CONGRESSIONAL BUDGET OFFICE FORECAST OF BUDGET DEFICIT CAUSES CONSIDERABLE RETHINKING.

- Last fall the CBO projected a budget deficit reaching nearly $300 billion by 1990 which undoubtedly helped in pushing through the Gramm-Rudman Budget Deficit Act in December 1985 mandating a balanced budget.

- Now the CBO does a complete about face and lowers the estimate to the $100 billion range by 1991.

KEDI believes the legislation was needed to pare down the size of the federal government after the rampage of spending programs over the past two decades--many of which were ill-conceived, poorly administered and riddled with corruption. There has been a flood of rhetoric about the damage to be caused by eliminating certain programs. This comes from self-interest groups, naturally, and should be taken with a large grain of salt. The fact is plain and simple: the American public cannot and should not be saddled with funded programs that are not achieving intended results and clearly never could.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates

INDICATOR	*-----FEDERAL	----------*		*---STATE AND LOCAL	----*	
	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	311.3	74.4	-172.9	130.5	19.2	64.4
1985:1*	363.9	65.9	-165.6	137.8	17.5	63.2
2*	321.8	65.0	-209.1	141.1	17.3	57.3
3*	355.4	68.9	-201.3	142.9	18.5	56.9
4*	362.1	71.1	-224.2	146.3	19.2	59.4
YEAR	350.8	67.7	-200.1	142.0	18.1	59.2
% change from '84	12.7	-9.0	15.7	8.8	-5.6	-8.1
1986:1	376.6	73.1	-190.5	148.5	20.0	57.3
2	380.7	76.7	-187.6	150.8	20.7	58.2
3	376.3	78.1	-180.9	156.6	21.4	59.6
4	394.0	81.2	-178.0	159.3	21.7	59.3
YEAR	381.9	77.3	-184.2	153.8	20.9	58.6
% change from '85	8.9	14.1	-7.9	8.3	15.6	-1.0
1987:1	403.8	85.0	-174.9	163.2	22.2	61.3
2	414.4	90.1	-170.6	164.9	22.9	62.7
3	422.8	93.0	-164.2	167.0	23.5	64.3
4	438.5	95.7	-157.8	170.5	24.1	65.3
YEAR	419.9	91.0	-166.9	166.4	23.2	63.4
% change from '86	9.9	17.7	-9.4	8.2	10.6	8.2

---

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1986
FORECAST
DATA

Percent Change
from
March 1986 86
Forecast

+ .32%	Corp. after tax profits
+ .03%	Comp. of emp.
0.00%	Average weekly earnings
- 1.02%	Personal Income
- 1.14%	Personal disp. income
- 3.94%	Personal savings

PERSONAL INCOME AND PERSONAL DISPOSABLE INCOME RESPONDING TO SPRING THAW WITH MODEST GAINS

* Personal income rose six-tenth of 1 percent in February.

* Personal consumption spending up three-tenth of 1 percent after falling four-tenth of 1 percent in January.

* Increases occurred in spending for services which rose by a healthy annual rate of $16.3 bil.

* KEDI forecasts improved performance in retail sales resulting from increases in income.

CORPORATE PROFITS IMPROVING NICELY

* Profits before taxes increased 4.9% in fourth quarter 1985, following a 4.5% rise in third quarter.

* After-tax profits rose 6% in fourth quarter, 1985 after a 3.4% increase in the third quarter.

Corporate profits should grow steadily throughout 1986.

TABLE 1.60
INCOME

Quarterly data are seasonally adjusted at annual rates

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1984*	3111.9	2670.2	2221.3	144.0	172.5	368.5
1985:1*	3240.9	2739.2	2320.4	136.6	130.9	374.6
2*	3280.1	2817.7	2356.9	136.4	167.2	378.5
3*	3298.5	2800.2	2358.2	141.1	102.6	384.6
4*	3354.3	2845.9	2427.5	149.5	115.2	390.3
YEAR	3293.4	2800.8	2365.8	140.9	129.0	382.0
% change from '84	5.8	4.9	6.5	-2.2	-25.2	3.7
1986:1	3433.3	2908.2	2462.3	150.6	117.6	391.4
2	3470.1	2938.6	2519.9	156.9	121.5	395.2
3	3513.5	2980.6	2447.8	157.4	127.4	397.4
4	3586.9	3033.6	2597.9	163.1	130.7	406.3
YEAR	3500.9	2965.2	2507.0	157.0	124.3	418.7
% change from '85	6.3	5.9	6.0	11.4	-3.6	9.6
1987:1	3641.9	3074.9	2650.1	168.0	136.2	413.4
2	3694.3	3115.0	2694.6	173.8	140.5	417.6
3	3754.5	3164.7	2759.6	179.6	143.2	420.9
4	3861.8	3252.8	2814.2	184.2	146.8	429.3
YEAR	3738.1	3151.9	2729.6	176.4	141.7	420.3
% change from '86	6.8	6.3	8.9	12.4	14.0	.4

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

Forecast data for money supply based on the 1985 revised series M1 and M2 show only slight changes when compared to March data.

KEDI assumes that the Federal Reserve policy will lead to further easing, but not in gargantuan proportions seen in 1985.

- Growth of money supply will moderate this year and next.

FORECAST DATA FOR MAJOR CREDIT AGGREGATES SHOW A SLOWDOWN IN 1986 COMPARED TO 1985:

- Consumer installment credit at 6.8% compared to 17.6% in 1985. Consumers are deep in debt--so much so that they can borrow no more.
- Commerical and industrial loans at 4.8% increase compared to 5% in 1985.
- Mortgage credit will grow at approximately the same pace in 1986 as in 1985 because of improved outlook in housing starts.

1986
FORECAST
DATA

Percent Change from March 1986 Forecast

+ 6.78%	Large denom. time deposits
+ 1.67%	Consumer install. credit
+ .82%	Currency & demand deposits
+ .51%	Mortg. at S & L Assns.
+ .16%	Comm. & industrial loans at banks
- .02%	Time deposit adjust.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits adjusted, M2" are averages of daily figures; other data are end of period figures.

INDI-CATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	545.0	2277.4	460.5	469.0	416.8	555.3
1985:1*	568.1	2417.0	471.6	481.2	421.0	559.3
2*	583.0	2455.1	495.8	484.3	422.7	569.3
3*	604.1	2513.5	524.4	487.2	425.6	575.6
4*	619.2	2550.5	541.4	492.3	436.4	582.7
YEAR	593.6	2484.0	541.4	492.3	436.4	582.7
% change from '84	8.9	9.1	17.6	5.0	4.7	4.9
1986:1	631.8	2604.7	554.7	496.5	454.3	588.9
2	638.5	2658.1	560.9	501.3	460.7	593.2
3	634.2	2792.7	569.2	508.4	462.9	601.6
4	638.5	2798.6	578.4	515.9	466.5	611.8
YEAR	635.8	2713.5	578.4	515.9	466.5	611.8
% change from '85	7.1	9.2	6.8	4.8	6.9	5.0
1987:1	653.2	2872.5	589.9	523.4	468.7	625.7
2	659.8	2910.9	597.4	529.2	470.4	638.4
3	666.4	2966.9	602.6	535.7	474.3	649.5
4	677.8	3028.1	614.8	542.4	478.5	654.2
YEAR	664.3	2944.6	614.8	542.4	478.5	654.2
% change from '86	4.5	8.5	6.3	5.1	2.6	6.9

*Historical data. n.s.a: not seasonally adusted. s.a.: seasonally adjusted at annual rates. Data for M1, M2, and Comm. and Ind. Loans after the February revision.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1986
FORECAST
DATA

Percent Change from March 1986 Forecast

+ 5.36%	S & P's 500 avg
- 1.18%	Treas. bills 3 mo. yield
- 1.73%	Aaa corp. bond rate
- 2.50%	Conv. mortg. rate
- 3.68%	Prime rate
- 9.96%	20 yr. Govt. bonds yields

INTEREST RATES WILL CONTINUE A GRADUAL SLIDE THROUGH THE REST OF 1986. DO NOT EXPECT DRASTIC CUTS:

- Interest rates are already low enough.
- The economy is not bad enough to justify further deep declines.
- Foreign countries are not able to cut their interest rates drastically. Further cuts by the Fed would drive away foreign investors who are still needed because of the whopping Federal deficit.

KEDI DISAGREES WITH THOSE WHO PREDICT INTEREST RATES GOING UP IN THE SECOND QUARTER.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P's 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1984*	9.52	12.04	13.84	12.71	12.48	160.50
1985:1*	8.18	10.54	13.28	12.06	11.41	177.30
2*	7.52	10.20	12.76	11.63	11.15	184.80
3*	7.11	9.50	12.58	11.03	10.74	188.30
4*	7.13	9.50	12.11	10.58	10.22	197.08
YEAR	7.48	9.93	12.68	11.32	10.88	186.87
% change from '84	-21.4	-17.5	-8.4	-10.9	-12.8	16.4
1986:1	7.03	9.41	11.21	10.09	9.06	219.47
2	6.77	9.06	10.55	9.78	7.83	232.65
3	6.60	8.90	10.04	9.41	7.26	236.41
4	6.44	8.46	10.01	9.32	7.04	240.52
YEAR	6.71	8.96	10.45	9.65	7.80	232.26
% change from '85	-10.4	-9.8	-17.6	-14.8	-28.3	24.3
1987:1	6.21	8.13	10.05	9.20	7.06	237.40
2	6.18	8.10	10.08	9.11	7.02	236.20
3	6.09	8.10	10.22	9.17	6.63	244.26
4	6.18	8.24	10.63	9.31	6.74	250.71
YEAR	6.17	8.14	10.25	9.20	6.86	242.14
% change from '86	-8.1	-9.1	-2.0	-4.7	-12.0	4.3

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Three-month Treasury Bill Rate has been selected for comparison. The actual figure is in the Federal Reserve Bulletin (Board of Governors of the Federal Reserve System, Washington, C.C.)., March 1986 issue, page A24. Forecast data are in Business Forecasts 1985 (Federal Reserve Bank of Richmond, Virginia, February 1985). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
Three-months Treasury Bill Rate, %
Actual figure: 7.48

Forecaster (and page in source)	**Date of Forecast**	**Forecast**	**Accuracy %**
American Statistical Assn and National Bureau of Economic Research, p. 17	12/84	9.52	+27.3
Ameritrust, p. 42	1/25/85	9.10	+21.7
Ashland Oil, Inc., pg. 14	11/84	8.45	+13.0
Chase Econometrics, p. 28	12/26/84	9.00	+20.3
Evans Economics, Inc., p. 26	12/21/84	9.01	+20.5
Fidelity Bank, p. 25	12/20/84	8.75	+17.0
First Interstate Bank of Calif.,p.16	11/19/84	8.98	+20.1
Kent Economic and Development Institute, p. 32	**1/1/85**	**8.45**	**+13.0**
Merrill Lynch Economics, p. 36	1/14/85	8.20	- .1
Money Market Services, Inc., p. 40	1/22/85	8.07	+ 9.6
Research Seminar in Quantitative Economics, Univ. of Michigan, p. 24	12/17/84	8.72	+16.6
Standard & Poors Corp., p. 35	1/10/85	8.07	+ 9.6
UCLA Business Forecasting Project, p. 22	12/13/84	8.00	+ 7.0

Care should be exercised when interpreting the data. Some forecasters may have different definitions of the 3 month Treasury Bill Rate.

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	SCB, Blue pages
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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SOURCES:

U.S.Department of Commerce estimates of 1986:1 National Income and Product data, April 20, 1986.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, April 1986.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

New orders in manufacturing are strong while productivity increases 2.3% in 1986:1 over 1985:4.

Prices

CPI not expected to drop further. OPEC remains divided as slippery oil prices prevail.

Employment & Labor

Expect further improvement in unemployment rate in May and following months.

Housing

Housing slipping from the January-February peaks to more realistic levels.

Automobiles

Automakers look to light truck production to take up slack in sales this year and in 1987.

Budgets

KEDI supports the Senate version of the tax overhaul as more realistic for taxation of businesses.

Income

Personal income and Personal Disposable Income will have healthy, good increases for the balance of 1986.

Money & Credit

KEDI anticipates that the Fed will not be as generous in pumping money and credit into the economy as it was in 1985.

Interest Rates, Yields & Securities Prices

Expect small declines in interest rates in the second half of this year with stabilization in 1987.

0.02 ASSUMPTIONS

		Last Update
1.	In 1986, the weighted price of oil will stabilize; in 1987 it will increase slightly and continue at that level in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies will start in the second quarter of 1986, and will continue into the first part of 1987.	March 1986
3.	In 1986 and 1987 good crops in all main producing countries are anticipated.	Jan 1984
4.	Foreign trade with China will expand in 1986 and following years.	Jan 1984
5.	Average rates of growth in 1984-1990 in major industrial countries are anticipated: West Germany 3.1%; Italy 2.4%; Great Britain 2.5%; France 2,6%; Japan 2.9%.	Jan 1985
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

- Table 0.00 on page 3 shows forecast data of selected indicators of the April 1986 KEDI forecast.
- In 1986 moderate growth is expected.
- An upward trend in 1987 is anticipated. It will continue throughout 1988 - 1990.
- Forecast data for 1986-1990 do not point to recession or major downturn.
- Financial outlook is optimistic.
- Federal budget deficits will keep declining in 1986 and the following years.
- This year's export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

Indicator	Unit	1985	1988	1989	1990
Gross national	bil. 82$	3570.0	3940.8	4078.8	4184.8
product, p. 5	% change	2.2	3.9	3.5	2.6
Index of indust.	1967=100	124.6	143.8	149.8	155.4
prod., p. 5	% change	2.3	5.4	4.2	3.7
Capacity	%	80.3	82.8	82.0	81.2
utiliz., p. 5	% change	-.6	.9	-1.0	-.9
Unemployment	%	7.2	6.5	6.5	6.6
rate, p. 5	% change	-4.2	-3.7	1.1	1.0
Private housing	mil.units	1.7	2.1	2.0	2.0
starts, p. 5	% change	-1.0	9.9	-4.2	-2.1
Car sales,	mil.units	11.1	12.6	12.2	12.1
p. 5	% change	7.0	10.3	-2.8	-.6
Implicit GNP	1972=100	111.9	122.5	127.9	133.1
price def., p. 9	% change	3.5	3.7	4.4	4.1
Consumer Price	1967=100	322.1	344.6	357.4	371.3
Index, p. 9	% change	3.6	3.1	3.7	3.9
Prod.Price Index	1967=100	293.9	315.8	330.6	340.2
(fin.goods),p.9	% change	.6	4.0	4.7	2.9
Federal Deficit	bil. $	-200.1	-150.7	-128.6	-107.6
p. 19	% change	15.7	-11.0	-14.7	-16.3
Personal Income	bil. $	3293.4	3966.3	4267.8	4579.3
p. 21	% change	5.8	7.9	7.6	7.3
Prime Rate	%	9.9	7.9	8.6	9.4
p. 25	% change	-17.5	-3.5	9.8	9.2
Mortgage Rate	%	12.7	10.0	10.3	9.7
p. 25	% change	-8.4	-3.0	3.6	-5.9
Currency+demand	bil. $	593.6	711.5	752.7	788.9
deposits, p. 23	% change	8.9	6.9	5.8	4.8
Commercial+ind.	bil. $	493.9	570.8	586.8	598.5
loans, p. 23	% change	5.3	5.1	2.8	2.0
Raw steel	mil.sh.tons	88.1	93.0	92.2	92.3
production	% change	-4.8	1.8	-.9	.2
Electric power	mil.kw-hr	2576	3119	3271.8	3458.3
production	% change	6.5	6.4	4.9	5.7
Bituminous coal	mil.sh.tons	900	978	981.9	994.7
production	% change	1.2	2.0	.4	1.3
Crude oil	avg. daily bbl.	3279	2480	2447.8	2469.8
output	% change	.9	-2.0	-1.3	.9
Retail sales	bil. $	1362.7	1743.9	1836.3	1948.3
p. 7	% change	4.9	7.8	5.3	6.1

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH

See Table 1.11
Page 5

THERE'S GOOD NEWS...AND BAD NEWS!

First--the good news:

- New orders in manufacturing are strong, according to last survey of National Assn of Purchasing Mgrs.
- Index of Leading Indicators up in March to 176.6% from February's 175.5% (1967 avg). Further growth in sight.
- Overall business productivity up 2.3% in 1986:1 over 1985:4. Manufacturing productivity up 2.4% for the same quarter.
- No significant weaknesses for: aluminum, copper, stone and earth minerals, foods, paper and products, printing and publishing, most chemicals, lumber, furniture and fixtures, clay, glass and stone products, plastics, electrical machinery and aerospace.
- Leveling off and some problems for: coal, textile and apparel, rubber, leather products, iron and steel, fabricated metal products, non-electrical machinery, and motor vehicles.
- Trouble will persist in: oil and gas, farm machinery, farm chemicals, office construction, and some petroleum products.

KEDI agrees with majority of forecasters who predict a good second half of this year and significant improvements in 1987.

1986
FORECAST
DATA

Percent Change
from
April 1986
Forecast

+ .62%	Umemp.
- .24%	GNP
- .40%	Capacity util.
- .45%	Autos
- .89%	Index Indus.
- 1.11%	Private Housing Starts

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR Unit	GNP $82 bil.	Index of ind. prod 1977=100	Unem-ploy ment %	Capacity util'n rate %	Private housing starts mil.	Auto sales mil.
Year & Qtr.						
1984*	3492.0	121.8	7.52	80.8	1.750	10.4
1985:1*	3547.8	123.8	7.32	80.5	1.793	10.9
2*	3557.4	124.4	7.31	80.4	1.769	10.9
3*	3584.1	124.8	7.17	80.3	1.641	12.4
4*	3590.8	125.3	7.02	80.1	1.729	10.3
YEAR	3570.0	124.6	7.21	80.3	1.733	11.1
% change from °84	2.2	2.3	-4.2	-.6	-1.0	7.0
1986:1	3619.2	125.8	7.07	80.0	2.024	11.0
2	3650.4	126.8	6.91	80.2	1.955	10.8
3	3680.1	128.3	6.86	81.0	1.840	11.1
4	3710.2	130.9	6.85	81.1	1.697	10.9
YEAR	3665.0	128.0	6.92	80.6	1.879	10.9
% change from °85	2.7	2.7	-3.9	.3	8.4	-1.6
1987:1	3746.0	132.4	6.88	81.7	1.854	10.8
2	3775.3	135.7	6.78	81.9	1.967	11.4
3	3813.6	138.0	6.72	82.2	1.977	11.5
4	3836.8	139.6	6.61	82.4	1.893	11.9
YEAR	3792.9	136.4	6.75	82.1	1.923	11.4
% change from °86	3.5	6.6	-2.5	1.8	2.3	4.1

*Historical data.

1.12 CONSUMER SPENDING AND RETAIL SAILS

See Table 1.12 - page 7

1986
FORECAST
DATA

Percent Change from April 1986 Forecast

-10.71%	Pers. con. durables.
-10.69%	Retail durables
- 9.07%	Retail Total
- 8.01%	Retail nondur.
- 4.70%	Pers. con. exp. services
- 3.72%	Pers. con. exp. durables

SECOND QUARTER 1986 STILL SLUGGISH--EXPECT IMPROVEMENTS IN SECOND HALF 1986.

* Largest sales increases will occur in hardware and furniture.

* Good performance forecast for restaurants, grocery stores, gasoline stations, and automotive parts.

* Flat sales for autos.

Some forecasters believe that consumers are "spent out." Others believe that lower oil prices will not spark the consumer boom som people are looking for.

Commerce Secretary Malcolm Baldrige believes that the boom in housing sales this year following the big drop in mortgage rates would "set the stage for faster growth in the second half."

KEDI concurs with the majority of forecasters who see a brighter second half for 1986.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	--Personal Cons. Expend.-			*------Retail Sales-------*		
INDICATOR	Durables	Nondurables	Services	Total n.s.a.	Durables n.s.a.	Nondurables n.s.a.
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1984*	331.1	874.4	1219.5	1297.0	464.3	832.7
1985:1*	351.5	895.7	1277.8	304.6	111.8	192.8
2*	356.5	910.2	1296.6	348.8	134.5	214.3
3*	376.0	914.5	1315.6	350.6	135.2	215.4
4*	362.0	928.3	1344.6	363.9	139.5	224.4
YEAR	361.5	912.2	1308.6	1367.9	521.0	846.9
% change from °84	9.2	4.3	7.3	5.5	12.2	1.7
1986:1	362.4	939.2	1368.7	365.8	140.7	225.1
2	371.1	951.2	1367.6	365.7	142.6	223.1
3	390.1	959.1	1370.5	369.0	143.9	225.1
4	398.2	969.6	1398.5	373.1	144.3	228.8
YEAR	380.4	954.8	1376.3	1473.6	571.5	902.1
% change from °85	5.2	4.7	5.2	7.7	9.7	6.5
1987:1	405.4	978.1	1407.2	387.0	150.6	236.4
2	412.6	980.2	1448.5	398.2	156.4	241.8
3	421.5	994.2	1459.5	411.1	160.0	251.1
4	428.2	1015.1	1465.5	421.4	163.2	258.2
YEAR	416.9	991.9	1445.2	1617.7	630.2	987.5
% change from °86	9.6	3.9	5.0	9.8	10.3	9.5

n.s.a. = not seasonally adjusted at annual rates.

1.13 REAL GNP

See Table 1.13
Page 9

1986
FORECAST
DATA

Percent Change
from
April 1986
Forecast

+ .96%	Gross pvt.dom. invest.
+ .06%	State local purch.
- .24%	GNP
- .45%	Pers. con. exp.
- 2.69%	Fed. govt. purch.
- 3.32%	Net Exports

GNP ON MODERATE GROWTH PATH CONFIRMED BY 1986:1 DATA INCREASING APPROXIMATELY $20 BILLION COMPARED TO 1985:4 (Seasonally adjusted at annual rates).

Main components of growth:

* $24 billion rise in Personal Consumption Expenditures--a good sign of strength in consumer spending.

* $14 billion improvement in Net Exports. Increase in exports and decrease in imports helps narrow the trade gap--a good sign indeed!

* $8 billion rise in business inventories--an indicator of slower growth than anticipated.

* $15 billion decline in business capital outlays on equipment--another sign of slower growth.

Most industries are in good shape with rates of growth in line with overall growth in the economy. The slowness has been most seriously effected by oil, oil exploration, and related industries.

KEDI forecast data on business capital formation shows that overall growth in this segment will remain within tolerable limits.

TABLE 1.13
REAL GNP

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Gross National Product					
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1984*	3492.0	2239.9	661.3	-85.0	292.5	383.3
1985:1*	3547.8	2288.6	639.6	-71.8	304.3	387.1
2*	3557.4	2303.5	655.6	-101.1	305.8	393.6
3*	3584.1	2329.6	645.0	-119.8	331.2	398.1
4*	3590.8	2330.4	655.7	-140.7	349.0	396.5
YEAR	3570.0	2313.0	649.0	-108.3	322.6	393.8
% change from °84	2.2	3.3	-1.9	27.5	10.3	2.7
1986:1	3619.2	2354.8	674.8	-126.0	316.7	398.9
2	3650.4	2368.7	677.5	-120.3	323.5	401.0
3	3680.1	2379.8	679.3	-111.2	328.2	404.0
4	3710.2	2393.0	685.8	-108.5	332.1	407.8
YEAR	3665.0	2374.1	679.3	-116.5	325.1	402.9
% change from °85	2.7	2.6	4.7	7.5	.8	2.3
1987:1	3746.0	2412.0	692.7	-105.1	335.6	410.8
2	3775.3	2419.3	698.9	-95.4	338.9	413.6
3	3813.6	2439.0	703.4	-90.3	343.3	418.2
4	3836.8	2437.0	710.6	-87.5	354.1	422.6
YEAR	3792.9	2419.7	701.4	-94.6	350.1	416.3
% change from °86	3.5	1.9	3.2	-18.8	7.7	3.3

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1986 FORECAST DATA

Percent Change from April 1986 Forecast

+	.71%	Fed. govt. purch.
+	.07%	GNP
+	.02%	State local purch.
+	.01%	Producer Price Index
-	.01%	Consumer Price Index
-	.03%	Personal cons. expend.

OPEC REMAINS DIVIDED AS SLIPPERY OIL PRICES PREVAIL.

CPI NOT EXPECTED TO DROP FURTHER:

- The .4% drop in March compared to February was caused by the drop in oil prices. Another small drop is expected in April data.
- KEDI does not forecast further declines in the CPI in May or following months as oil prices begin to stabilize.

Components of CPI with continuing increases are: food, apparel, entertainment, services, and housing services.

INFLATION IS REAPPEARING!

- With gasoline stabilizing as it is now, the CPI will resume upward trend

Movement in the Producer Price Index relates to the same factors affecting the CPI. Expect significant increases, especially in raw materials prices in 1987.

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

	Indexes		Price deflators			
INDICATOR	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967=100	1967=100	1982=100	1982=100	1982=100	1982=100
Year & Qtr.						
1984*	311.1	292.1	108.1	108.2	107.0	105.9
1985:1*	317.4	292.8	110.4	110.3	109.9	114.4
2*	321.2	293.7	111.3	111.3	110.4	116.1
3*	323.5	292.8	112.8	111.9	110.1	117.5
4*	326.5	296.2	113.1	113.0	109.7	119.4
YEAR	322.1	293.9	111.9	111.6	110.0	116.8
% change from '84	3.6	.6	3.5	3.2	2.8	10.3
1986:1	327.6	292.8	113.8	113.4	111.9	120.0
2	327.7	290.9	114.2	113.6	112.6	121.3
3	328.1	293.1	114.9	114.3	113.7	121.9
4	329.3	295.7	115.8	115.6	115.0	122.9
YEAR	328.2	293.1	114.7	114.1	113.3	121.5
% change from '85	1.9	-.3	2.5	2.2	3.0	4.0
1987:1	330.8	297.3	116.4	115.7	115.8	124.1
2	333.0	301.5	117.7	117.4	117.2	125.3
3	335.4	306.7	118.4	117.9	118.3	127.2
4	337.9	309.0	119.9	119.4	119.8	129.3
YEAR	334.3	303.6	118.1	117.6	117.8	126.5
% change from '86	1.9	3.6	3.0	3.1	3.9	4.1

*Historical data.

**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1986
FORECAST
DATA

Percent Change
from
April 1986
Forecast

+ 1.33%	Gross private dom. invest.
+ .10%	State local purch.
- .20%	GNP
- .38%	Personal cons. exp.
- 2.01%	Federal gov't purchases
- 3.58%	Net Exports

GRADUAL DECLINE IN EXPORT-IMPORT GAP CONTINUES TO BALANCE TRADE GAP.

INTERNATIONAL VALUE OF THE DOLLAR IS DEPRECIATING TOO RAPIDLY.

While the higher priced foreign currencies continue to improve the im/ex gap, there is justifiable growing concern that the U.S. dollar is declining too rapidly:

* U.S. monetary and credit policies are not expected to tighten resulting in too many dollars on markets.

* Prices of oil resulting in lowered demand for dollars to buy petroleum.

* Trade deficit is still too big and continues to supply dollars to international markets.

ON THE UP SIDE: Export-Import gap declining.

ON THE DOWN SIGN: Inflation will increase due to undervalued dollar which can expect further devaluation.

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates

	*-----------Gross National Product					---------------*
INDICATOR	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports -	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	3774.1	2423.0	674.0	-59.2	312.9	423.9
1985:1*	3917.5	2525.0	657.8	-42.3	334.4	442.8
2*	3960.6	2563.3	672.8	-70.3	337.7	457.1
3*	4016.9	2606.8	666.1	-87.8	364.8	467.7
4*	4059.3	2634.8	688.7	-113.4	384.7	472.5
YEAR	3994.9	2581.9	671.4	-78.5	355.4	460.0
% change from °84	5.8	6.6	-.4	32.5	13.6	8.5
1986:1	4116.6	2670.3	708.0	-95.6	354.4	478.7
2	4168.8	2689.9	714.3	-86.1	364.3	486.4
3	4228.4	2719.7	720.3	-77.2	373.2	492.5
4	4296.4	2766.3	725.4	-62.0	381.9	501.2
YEAR	4202.6	2711.6	717.0	-80.2	368.4	489.7
% change from °85	5.2	5.0	6.8	2.3	3.7	6.4
1987:1	4360.3	2790.7	730.6	-59.4	388.6	509.8
2	4443.5	2841.3	740.1	-53.3	397.2	518.2
3	4515.3	2875.2	750.8	-48.8	406.1	532.0
4	4600.3	2908.8	764.4	-43.5	424.2	546.4
YEAR	4479.4	2845.4	746.5	-51.2	404.0	526.6
% change from °86	6.6	4.9	4.1	-36.1	9.7	7.5

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1986
FORECAST
DATA

Percent Change
from
April 1986
Forecast

+ .62%	Unemployment rate
0.00%	Agriculture
- .01%	Population.
- .15%	Civilian labor force
- .19%	Total employed
- 8.82%	Non Agriculture

EXPECT FURTHER IMPROVEMENT IN UNEMPLOYMENT RATE IN MAY AND FOLLOWING MONTHS.

POSITIVE TREND WILL CONTINUE THROUGHOUT 1986 AND 1987.

MANUFACTURING REBOUNDING BY REGAINING 60% OF JOBS LOST IN THE 1981-82 RECESSION.

KEDI forecast shows that employment in manufacturing will attain the prerecession 1981-82 level in 1988 and will show small increments afterward.

In manufacturing, expect main gains in: aerospace, food, printing and publishing, electrical machineery, paper and products, plastics, clay, glass and stone products.

Expect leveling off in: textiles, apparel, rubber, primary metals, and fabricated metal products.

Continuous declines for: tobacco products, petroleum products, and leather and products.

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates

			Employment			
INDICATOR	Population	Civil. labor force	Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1984*	237.4	113.5	105.0	3.4	101.6	7.52
1985:1*	239.8	115.2	107.1	3.4	103.4	7.32
2*	240.9	115.2	106.9	3.3	103.6	7.31
3*	242.3	115.5	107.2	3.0	104.2	7.17
4	243.7	116.2	108.0	3.1	104.9	7.02
YEAR	241.7	115.4	107.4	3.2	104.2	7.21
% change from '84	1.8	1.7	1.6	-5.9	2.6	-4.19
1986:1	244.5	118.3	109.9	3.1	106.8	7.07
2	245.9	118.5	110.3	3.1	107.2	6.91
3	247.3	119.2	111.0	3.1	107.9	6.86
4	249.8	120.1	111.9	3.1	108.8	6.85
YEAR	246.9	119.0	110.8	3.1	107.7	6.92
% change from '85	2.2	3.1	3.3	-3.1	3.3	-3.92
1987:1	250.7	121.5	113.1	3.1	110.0	6.88
2	252.6	122.6	114.3	3.1	111.2	6.78
3	254.3	123.2	114.9	3.1	111.8	6.72
4	256.5	123.9	115.7	3.1	112.6	6.61
YEAR	253.5	122.8	114.5	3.1	111.4	6.75
% change from '86	2.7	3.2	3.3	0.0	3.5	-2.53

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1986
FORECAST
DATA

Percent Change
from
April 1986
Forecast

- .91%	Mobile home shipments
- .07%	Permits authorized
- .19%	1-Family unit price new
- .21%	1-Family unit price existing
- .87%	Single family housing starts
- 1.37%	Multi-family housing starts

HOUSING SLIPPING FROM THE JANUARY-FEBRUARY PEAKS TO MORE REALISTIC LEVELS.

FORECAST DATA POINTS TO FAIRLY GOOD PERFORMANCE FOR BALANCE OF 1986.

- * Expectations of builders over tax reforms continues the "build now" mentality.
- * Effect of decreasing mortgage rates NOT TOO IMPORTANT since rates will slip no more than 1% on conventional fixed-mortgage rates by mid-year--look for stabilized rates thereafter.

GOOD PERFORMANCE FOR SINGLE FAMILY UNITS.

MEDIOCRE PERFORMANCE IN MULTI-FAMILY UNITS as builders remain uncertain about the provisions of the new tax bill.

DEPRESSED MARKETS IN OIL PRODUCING STATES will keep growth moderate.

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home shipments mil.	Permits authorized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1984*	1.084	.665	.295	1.682	97.0	87.0
1985:1*	1.121	.674	.277	1.709	98.5	87.3
2*	1.076	.693	.281	1.731	100.6	90.4
3*	1.029	.641	.285	1.762	100.8	92.5
4*	1.060	.680	.291	1.736	102.3	90.2
YEAR	1.071	.672	.283	1.735	100.5	90.1
% change from °84	-1.2	1.1	-3.9	3.1	3.7	3.6
1986:1	1.284	.740	.272	1.824	102.3	91.5
2	1.263	.692	.275	1.795	103.3	93.6
3	1.170	.670	.287	1.787	104.5	95.0
4	1.065	.632	.280	1.697	109.1	96.7
YEAR	1.196	.683	.279	1.776	104.8	94.2
% change from °85	11.6	1.7	-1.8	2.4	4.2	4.6
1987:1	1.174	.680	.282	1.697	105.4	97.0
2	1.247	.720	.306	1.852	107.9	97.2
3	1.279	.731	.314	1.987	109.8	99.5
4	1.195	.698	.299	1.887	111.6	101.7
YEAR	1.224	.707	.300	1.856	108.7	98.8
% change from °86	2.4	3.5	7.8	4.5	3.7	4.9

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*Historical data.

**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1986
FORECAST
DATA

Percent Change
from
April 1986
Forecast

+ 6.25%	Dealer car Inventory
- .32%	Factory shipments
- .45%	Total car sales
- .81%	Imports
- 1.28%	Total light truck sales
- 1.56%	Car sales domestic

AUTOMAKERS LOOK TO LIGHT TRUCK PRODUCTION TO TAKE UP SLACK IN SALES THIS YEAR AND IN 1987.

Lackluster performance in car sales in April--look for 4-5% decline in sales in April compared to April 1985.

Look for temporary increase in domestic car sales in May caused by new round of incentives. Low interest rates on car financing is working better than rebates and price reductions.

Automakers cannot keep dropping interest rates. KEDI says they are as low as they can go.

This will result in cuts in passenger car production. However, light truck sales are helping to maintain present production schedules.

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1984*	10.4	8.0	2.4	1.4	8.0	3.3
1985:1*	10.9	8.4	2.4	1.6	8.3	3.7
2*	10.9	8.2	2.7	1.6	8.0	3.6
3*	12.4	9.5	2.9	1.2	9.3	3.6
4*	10.3	7.7	3.3	1.3	7.9	3.9
YEAR	11.1	8.4	2.8	1.3	8.4	3.7
% change from '84	7.0	5.6	17.7	-7.1	4.7	12.1
1986:1	11.0	8.0	3.0	1.7	7.6	3.7
2	10.8	7.8	3.0	1.8	7.8	3.8
3	11.1	7.8	3.3	1.6	7.9	3.9
4	10.9	7.9	3.0	1.7	7.8	4.0
YEAR	10.9	7.9	3.1	1.7	7.8	3.9
% change from '85	-1.6	-10.4	8.8	30.8	-7.2	4.1
1987:1	10.8	7.9	2.9	1.6	7.9	3.7
2	11.4	8.2	3.2	1.7	8.1	3.9
3	11.5	8.3	3.2	1.8	8.4	4.2
4	11.9	8.9	3.0	1.6	8.7	4.3
YEAR	11.4	8.3	3.1	1.6	8.3	4.0
% change from '86	4.1	4.1	0.0	-5.9	6.4	4.5

*Historical data.

**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1986 FORECAST DATA

Percent Change from April 1986 Forecast

+ 2.39%	Surplus/ deficit
+ .26%	State local surplus/ deficit
- .45%	State local corp. tax accrued
- .75%	State local income taxes
- 1.16%	Corp. profits tax accru.
- 1.89%	Federal income taxes

KEDI SUPPORTS THE SENATE VERSION OF THE TAX OVERHAUL PLAN RECENTLY APPROVED IN THE SENATE:

- * It is revenue neutral
- * It is best for the business sector.

THERE ARE PRESENTLY THREE VERSIONS OF THE PART OF THE TAX BILL THAT PERTAINS TO THE BUSINESS SECTOR:

- * The House version is the worst. Democrats want to put the heaviest taxation on businesses.
- * President Reagan's request is for less taxation.
- * The Senate version calls for lower taxation, more more than the president is asking for.

KEDI preliminary forecast data for the economy indicates that the Senate's version is better: it allows the economy to grow in the next decade as the fastest rate when compared to the other two versions.

BUSINESS TAXES IN 5 YEARS:

- * House version: + $139 billion
- * Administration version: + $128 billion
- * Senate version: + $118 billion

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates

INDICATOR	*-----FEDERAL----------*			*---STATE AND LOCAL----*		
	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	311.3	74.4	-172.9	130.5	19.2	64.4
1985:1*	363.9	65.9	-165.6	137.8	17.5	63.2
2*	321.8	65.0	-209.1	141.1	17.3	57.3
3*	355.4	68.9	-201.3	142.9	18.5	56.9
4*	362.1	71.1	-224.2	146.3	19.2	59.4
YEAR	350.8	67.7	-200.1	142.0	18.1	59.2
% change from '84	12.7	-9.0	15.7	8.8	-5.6	-8.1
1986:1	355.9	73.0	-198.6	147.9	19.8	57.8
2	370.8	76.1	-190.5	149.6	20.5	58.2
3	379.4	77.0	-183.7	155.0	21.1	59.7
4	394.0	79.5	-181.6	158.1	21.8	59.3
YEAR	375.0	76.4	-188.6	152.7	20.8	58.8
% change from '85	6.9	12.8	-5.7	7.5	14.8	-.8
1987:1	403.2	84.2	-176.7	162.5	22.0	61.1
2	414.1	88.3	-172.4	163.9	22.8	62.8
3	422.0	92.0	-167.1	166.7	23.4	64.5
4	435.2	94.1	-161.2	170.4	24.0	65.7
YEAR	418.6	89.7	-169.3	165.9	23.1	63.5
% change from '86	11.6	17.3	-10.2	8.7	10.8	8.1

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1986
FORECAST
DATA

Percent Change
from
April 1986
Forecast

+ 2.63%	Personal savings
+ .02%	Comp. of emp.
- .12%	Personal disp. income
- .18%	Corp. after tax profits
- .33%	Personal Income
- 5.13%	Average weekly earnings

PERSONAL INCOME AND PERSONAL DISPOSABLE INCOME WILL HAVE HEALTHY, GOOD INCREASES FOR THE BALANCE OF 1986.

* Personal savings show further improvements.

* Corporate earnings optimistic for balance of 1986.

HIGHEST EARNINGS EXPECTED:
Nonelectrical machinery, aerospace, residential construction, leisure, financial services, food, printing and publishing, chemicals and products, plastics, retail, lumber and wood, clay, glass and stone products, and most services.

AVERAGE EARNINGS:
Electrical machinery, fabricated metal products, rubber, leather and products, transportation, coal mining, and utilities

LOW OR MIXED EARNINGS:
Oil and oil exploration, iron and steel, textile and apparel, transportation equipment.

TABLE 1.60
INCOME

Quarterly data are seasonally adjusted at annual rates

INDICATOR Unit	Pers. income bil. $	Pers. disp. income bil. $	Comp. of empl. bil. $	Corp. after tax profits bil. $	Pers. saving bil. $	Avg. week earn. $
Year & Qtr.						
1984*	3111.9	2670.2	2221.3	144.0	172.5	368.5
1985:1*	3240.9	2739.2	2320.4	136.6	130.9	374.6
2*	3280.1	2817.7	2356.9	136.4	167.2	378.5
3*	3298.5	2800.2	2358.2	141.1	102.6	384.6
4*	3354.3	2845.9	2427.5	149.5	115.2	390.3
YEAR	3293.4	2800.8	2365.8	140.9	129.0	382.0
% change from '84	5.8	4.9	6.5	-2.2	-25.2	3.7
1986:1	3397.6	2893.8	2462.4	150.6	124.4	391.4
2	3437.9	2917.5	2520.9	156.7	126.2	394.6
3	3490.4	2956.0	2449.8	157.0	128.4	396.9
4	3552.6	3000.5	2597.4	162.6	131.3	405.9
YEAR	3469.6	2941.9	2507.6	156.7	127.6	397.2
% change from '85	5.3	5.0	6.0	11.2	-1.1	4.0
1987:1	3593.0	3027.3	2650.0	167.3	136.0	409.4
2	3656.1	3078.1	2695.1	173.0	138.3	413.7
3	3694.7	3106.0	2760.8	178.9	141.2	417.9
4	3759.9	3154.3	2815.7	184.0	145.8	421.5
YEAR	3675.9	3091.4	2730.4	175.8	140.3	415.6
% change from '86	5.9	5.1	8.9	12.2	10.0	4.6

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1986 FORECAST DATA

Percent Change from April 1986 Forecast

+ .57%	Mortg. at S&L Assns.
+ .69%	Currency & demand deposits
+ .06%	Comm. & industrial loans at banks
- .57%	Consumer install. credit
- .73%	Large donom. time deposits
- 1.17%	Time deposit adjust

THE U. S. ECONOMY IS FLOODED WITH MONEY AND CREDIT.

KEDI ANTICIPATED THAT THE FED WILL NOT BE AS GENEROUS AS BEFORE IN PUMPING MONEY AND CREDIT INTO THE ECONOMY AS IT WAS IN 1985.

- * Expect smaller increments in monetary and credit aggregates this year and in 1987 when compared to gargantuan jumps in 1985.

% CHANGES IN LEVELS

	1985	1986	1987
Money Supply M1	8.9	7.9	4.0
Consumer Installment Credit	19.4	4.6	5.2
Mortgages at S&L Assns	5.7	4.8	5.4

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, Ml", and "Time deposits adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits Ml, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	545.0	2277.4	460.5	469.0	416.8	555.3
1985:1*	568.1	2417.0	471.6	481.2	421.0	559.3
2*	583.0	2455.1	495.8	484.3	422.7	569.3
3*	604.1	2513.5	524.4	487.2	425.6	575.6
4*	619.2	2550.5	549.9	493.9	436.5	587.0
YEAR	593.6	2484.0	549.9	493.9	436.5	587.0
% change from '84	8.9	9.1	19.4	5.3	4.7	5.7
1986:1	632.2	2518.6	551.9	496.5	450.3	596.7
2	639.9	2648.3	560.9	501.5	459.7	603.4
3	640.6	2762.7	569.6	508.7	460.3	609.6
4	648.1	2797.6	575.1	516.2	463.1	615.3
YEAR	640.2	2681.8	575.1	516.2	463.1	615.3
% change from '85	7.9	8.0	4.6	4.5	6.1	4.8
1987:1	653.3	2861.6	583.6	524.1	467.1	622.7
2	660.7	2909.8	590.8	529.9	469.3	630.1
3	668.7	2963.7	598.0	536.1	473.4	642.6
4	679.5	3023.2	605.1	543.1	479.6	648.3
YEAR	665.5	2939.6	605.1	543.1	479.6	648.3
% change from '86	4.0	9.6	5.2	5.2	3.6	6.3

*Historical data. n.s.a: not seasonally adusted.
s.a.: seasonally adjusted at annual rates. Data for Ml, M2, and Comm. and Ind. Loans after the February revision.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1986
FORECAST
DATA

Percent Change
from
April 1986
Forecast

+ .56%	S & P's 500 avg
+ .35%	20 yr. Govt. bonds yields
+ .22%	Treas. bills 3 mo. yield
+ .16%	Aaa corp. bond rate
- .53%	Conv. mortg. rate
- 3.13%	Prime rate

EXPECT SMALL DECLINESS IN INTEREST RATES IN THE SECOND HALF OF THIS YEAR WITH STABILIZATION IN 1987.

KEDI anticipates that industrialized countries--Great Britian, France, Japan and Germany--are not ready to significantly reduce their interest rates during the balance of 1986.

The United States should not lower interest rates below international levels.

Expect small decreases in mortgage rates--they will bottom out at mid year with more significant drops in consumer loads, especially credit cards.

Further drops are anticipated in yields on corporate and government bonds in the second half of this year.

Good performance in the stock market is forecasted 1986-1987 period.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

INDICATOR Unit	Treas. bills 3 mo. yield %	Prime rate %	Conv. mortg rate %	Aaa corp. bond rate %	20 yr. Govt. bonds yield %	S & P°s 1941-43 500 Avg %
Year & Qtr.						
1984*	9.52	12.04	13.84	12.71	12.48	160.50
1985:1*	8.18	10.54	13.28	12.06	11.41	177.30
2*	7.52	10.20	12.76	11.63	11.15	184.80
3*	7.11	9.50	12.58	11.03	10.74	188.30
4*	7.13	9.50	12.11	10.58	10.22	197.08
YEAR	7.48	9.93	12.68	11.32	10.88	186.87
% change from '84	-21.4	-17.5	-8.4	-10.9	-12.8	16.4
1986:1	7.03	9.41	11.13	10.09	9.08	220.56
2	6.77	8.67	10.40	9.79	7.81	234.68
3	6.62	8.43	10.04	9.43	7.28	238.42
4	6.48	8.21	10.01	9.35	7.14	240.56
YEAR	6.72	8.68	10.39	9.66	7.83	233.56
% change from '85	-10.2	-12.6	-18.0	-14.7	-28.1	25.0
1987:1	6.29	8.16	10.06	9.22	7.06	238.42
2	6.21	8.10	10.12	9.08	7.05	237.51
3	6.10	8.10	10.23	9.17	6.86	244.63
4	6.19	8.24	10.64	9.36	6.84	250.24
YEAR	6.20	8.15	10.26	9.21	6.95	242.70
% change from '86	-7.8	-6.1	-1.3	-4.7	-11.2	3.9

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Aaa Corporate Bonds Rate has been selected for comparison. The actual figure is in the Federal Reserve Bulletin (Board of Governors of the Federal Reserve System, Washington, D.C.), May 1986 issue, page A24. Forecast data are in Business Forecasts 1985 (Federal Reserve Bank of Richmond, Virginia, February 1985). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
Aaa Corporate Bonds Rate, %
Actual figure: 11.37

Forecaster (and page in source)	**Date of Forecast**	**Forecast**	**Accuracy %**
Georgia State University, p. 15	11/84	12.57	+10.6
First Interstate Band of Calif.,p.16	11/19/84	11.54*	+ 1.5
UCLA Business Forecasting Project,p.22	12/13/84	11.30	- .1
Wharton Econometric Forecasting Assn., Inc., p. 30	12/16/84	11.74	+ 3.3
Evans Economics, Inc., p. 26	12/21/84	12.70	+11.7
Research Seminar in Quantitative Economics, Univ. of Michigan, p. 24	12/17/84	11.70	+ 2.9
Kent Economic and Development Institute, p. 32	**1/1/85**	**11.48**	**+ .1**
Merrill Lynch Economics, p. 36	1/14/85	8.20	- .1
Money Market Services, Inc., p. 40	1/22/85	8.07	+ 9.6
Standard & Poor's Corp., p. 35	1/10/85	8.07	+ 9.6

Care should be exercised when interpreting the data. Some forecasters may have different definitions of the Aaa Corporate Bonds Rate.

* Calculated as average of four quarterly data.

3.00 HISTORICAL DATA SOURCES

For reader°s convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	SCB, Blue pages
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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KEDI ECONOMIC SURVEY

June 1, 1986

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SOURCES:

U.S.Department of Commerce estimates of 1986:1 National Income and Product data, May 20, 1986.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, May 1986.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Manufacturing has bottomed out and heading for better times despite problems in oil-related industries.

Prices

Price declines are over! Oil Stabilizing.

Employment & Labor

Civilian labor force will increase close to 3% through 1987. Main increases occur in service producing industries.

Housing

Strong building activity to continue for several more months.

Automobiles

After sluggish April and weak May, do not expect significant improvement throughout this year.

Budgets

Federal deficit reduction targets for fiscal years 1987 and 1988 can only be achieved with tax increase of $10-15 billion.

Income

Personal income and Personal Disposable Income continue good growth in 1986 and 1987.

Money & Credit

KEDI does not expect the FED to adopt easier monetary policy for several months.

Interest Rates, Yields & Securities Prices

KEDI still forecasts further decline in interest rates throughout second half of this year.

0.02 ASSUMPTIONS

		Last Update
1.	In 1986, the weighted price of oil will stabilize; in 1987 it will increase slightly and continue at that level in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies will start in the second quarter of 1986, and will continue into the first part of 1987.	March 1986
3.	In 1986 and 1987 good crops in all main producing countries are anticipated.	Jan 1984
4.	Foreign trade with China will expand in 1986 and following years.	Jan 1984
5.	Average rates of growth in 1984-1990 in major industrial countries are anticipated: West Germany 3.1%; Italy 2.4%; Great Britain 2.5%; France 2,6%; Japan 2.9%.	Jan 1985
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

- Table 0.00 on page 3 shows forecast data of selected indicators of the June 1986 KEDI forecast.
- In 1986 moderate growth is expected.
- An upward trend in 1987 is anticipated. It will continue throughout 1988 - 1990.
- Forecast data for 1986-1990 do not point to recession or major downturn.
- Financial outlook is optimistic.
- Federal budget deficits will keep declining in 1986 and the following years.
- This year's export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

Indicator	Unit	1985	1988	1989	1990
Gross national	bil. 82$	3570.0	3949.5	4087.7	4194.0
product, p. 5	% change	2.2	3.8	3.5	2.6
Index of indust.	1977=100	124.6	140.2	146.1	151.5
prod., p. 5	% change	2.3	5.3	4.2	3.7
Capacity	%	80.3	82.6	81.8	81.1
utiliz., p. 5	% change	-.6	.9	-1.0	-.9
Unemployment	%	7.2	6.5	6.5	6.6
rate, p. 5	% change	-4.2	-3.6	1.1	1.0
Private housing	mil.units	1.7	2.1	2.0	2.0
starts, p. 5	% change	-1.0	9.0	-3.3	-2.1
Car sales,	mil.units	11.1	12.4	12.1	12.0
p. 5	% change	7.0	10.1	-2.8	-.6
Implicit GNP	1972=100	111.9	122.7	128.1	133.4
price def., p. 9	% change	3.5	3.7	4.4	4.1
Consumer Price	1967=100	322.1	345.1	357.8	371.8
Index, p. 9	% change	3.6	3.2	3.7	3.9
Prod.Price Index	1967=100	293.9	316.0	330.8	340.4
(fin.goods),p.9	% change	.6	4.2	4.7	2.9
Federal Deficit	bil. $	-200.1	-153.8	-131.2	-109.8
p. 19	% change	15.7	-11.0	-14.7	-16.3
Personal Income	bil. $	3293.4	3985.3	4284.2	4596.9
p. 21	% change	5.8	7.8	7.5	7.3
Prime Rate	%	9.9	8.3	9.1	9.9
p. 25	% change	-17.5	1.6	9.8	9.1
Mortgage Rate	%	12.7	10.0	10.4	9.8
p. 25	% change	-8.4	-3.0	3.6	-5.9
Currency+demand	bil. $	593.6	708.0	749.1	785.0
deposits, p. 23	% change	8.9	6.9	5.8	4.8
Commercial+ind.	bil. $	493.9	570.3	586.2	597.9
loans, p. 23	% change	5.3	5.0	2.8	2.0
Raw steel	mil.sh.tons	88.1	92.1	91.3	91.5
production	% change	-4.8	1.7	-.9	.2
Electric power	mil.kw-hr	2576	3122	3275.0	3461.7
production	% change	6.5	6.5	4.9	5.7
Bituminous coal	mil.sh.tons	900	970	973.9	986.5
production	% change	1.2	1.9	.4	1.3
Crude oil	avg. daily bbl.	3279	2378	2347.1	2368.2
output	% change	.9	-1.9	-1.3	.9
Retail sales	bil. $	1362.7	6211.5	6540.8	6939.7
p. 7	% change	4.9	7.8	5.3	6.1

Numbers in "% change" rows show percent changes over the previous year.

1986
FORECAST
DATA

Percent Change
from
May 1986
Forecast

+ .22%	Umemp.
+ .17%	GNP
- .19%	Capacity util.
- 1.15%	Autos
- 1.20%	Private Housing Starts
- 1.52%	Index Indus. Prod.

1.10 REAL GROWTH

See Table 1.11
Page 5

MANUFACTURING HAS BOTTOMED OUT AND HEADING FOR BETTER TIMES

Despite problems in oil-related industries, recently released data are signaling good times ahead.

* New orders in manufacturing for April rose to seasonally adjusted $193.18 bil. from a revised $193 bil in March. This seemingly small increase is significant because DEFENSE ORDERS dropped in April by 27%.

* Civilian orders for new durables in manufacturing rose by 2.1% in April over March.

* Factory shipments in April up to $194.9 bil from $192.3 bil. in March.

* Unfilled orders in manufacturing from to $279.4 bil. in March from $279.2 bil. in February.

* Index of leading indicators up 1.5% in April.

Other data point to a good first quarter '86.

* Manufacturing output in 1986:1 is up 2.3% compared to 1985:4.

* Nonfarm productivity up 2.5% in 1986:1.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates

INDICATOR Unit	GNP $82 bil.	Index of ind. prod 1977=100	Unem- ploy ment %	Capacity util'n rate %	Private housing starts mil.	Auto sales mil.
Year & Qtr.						
1984*	3492.0	121.8	7.52	80.8	1.750	10.4
1985:1*	3547.8	123.8	7.32	80.5	1.793	10.9
2*	3557.4	124.4	7.31	80.4	1.769	10.9
3*	3584.1	124.8	7.17	80.3	1.641	12.4
4*	3590.8	125.3	7.02	80.1	1.729	10.3
YEAR	3570.0	124.6	7.21	80.3	1.733	11.1
% change from '84	2.2	2.3	-4.2	-.6	-1.0	7.0
1986:1	3623.5	124.5	7.06	79.8	1.990	10.7
2	3656.7	125.3	6.95	80.2	1.965	10.6
3	3687.1	126.5	6.88	80.8	1.842	11.0
4	3718.2	127.9	6.85	81.0	1.712	10.8
YEAR	3671.4	126.0	6.93	80.5	1.877	10.8
% change from '85	2.8	1.2	-3.7	.2	8.3	-3.1
1987:1	3756.0	129.1	6.90	81.5	1.836	10.7
2	3788.3	131.7	6.80	81.8	1.949	11.2
3	3825.6	134.2	6.74	82.0	1.966	11.4
4	3849.8	137.5	6.64	82.3	1.878	11.8
YEAR	3804.9	133.1	6.77	81.9	1.907	11.3
% change from '86	3.6	5.6	-2.4	1.8	1.6	4.6

*Historical data.

1.12 CONSUMER SPENDING AND RETAIL SAILS

See Table 1.12 - page 7

1986
FORECAST
DATA

Percent Change
from
May 1986
Forecast

- .32%	Pers. con. expend. durables
0.00%	Retail Total
0.00%	Retail Sales Durable
0.00%	Retail nondur.
- .13%	Pers con. exp. durables
- .54%	Pers. con. exp. nondur.

SECOND HALF OF 1986 LOOKS MORE OPTIMISTIC FOR RETAIL SALES.

Consumers will have more to spend:

* Interest rates will stay low resulting in more attractive borrowing.

* Gasoline prices will remain low.

* Stock market will remain strong resulting in high equity to collateral for new new loans to buy.

MAJOR increases in retail sales for:
+ building materials
+ furniture and appliances

HEALTHY gains in:
+ foodstores

SLIGHT increases:
+ apparel and accessories

FLAT for:
gasoline stations
office equipment
communications equipment
data processing

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	*--Personal Cons. Expend.-**			------Retail Sales-------*		
INDICATOR	Durables	Nondurables	Services	Total	Durables	Nondurables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1984*	331.1	874.4	1219.5	1297.0	464.3	832.7
1985:1*	351.5	895.7	1277.8	1339.7	489.8	849.9
2*	356.5	910.2	1296.6	1375.9	511.1	864.8
3*	376.0	914.5	1315.6	1403.7	532.8	870.9
4*	362.0	928.3	1344.6	1391.6	512.5	879.1
YEAR	361.5	912.2	1308.6	1377.7	511.6	866.2
% change from '84	9.2	4.3	7.3	6.2	10.2	4.0
1986:1	364.1	936.0	1369.0	1409.6	526.1	883.5
2	370.1	950.1	1372.0	1423.1	531.4	891.7
3	389.1	957.3	1368.6	1438.8	538.7	900.1
4	396.3	955.2	1413.2	1449.3	548.2	901.1
YEAR	379.9	949.6	1380.7	1430.2	536.1	894.1
% change from '85	5.1	4.1	5.5	3.8	4.7	3.2
1987:1	404.4	975.4	1424.4	1492.7	551.4	941.3
2	410.5	978.2	1466.1	1521.5	568.4	953.1
3	420.1	990.3	1473.1	1558.7	588.5	970.2
4	427.1	1010.2	1506.9	1589.2	596.3	1002.9
YEAR	415.5	988.5	1467.6	1543.0	576.2	966.9
% change from '86	9.4	4.1	6.3	7.9	7.5	8.1

1.13 REAL GNP

See Table 1.13
Page 9

1986 FORECAST DATA

Percent Change from May 1986 Forecast

+ 4.25%	Net Exports
+ 1.45%	Gross Private Dom. Inv.
+ 1.39%	Fed. govt. purch.
+ .15%	State local purch.
+ .17%	GNP
- .15%	Pers. cons. expend.

NET EXPORTS CONTINUE TO IMPROVE.

	1985:4	1986:1
	(bil. 1982 $)	
Exports	$354.2	$366.4
Imports	500.0	498.6
Net Exports	-140.8	-130.3

PERSONAL CONSUMPTION UP!

Pers. cons. expend.	2330.4	2354.3

Revised data of real GNP, released by U.S. Dept. of Commerce on May 20 for 1986:1 confirms again that economy is in moderate growth as shown above. Other indicators on the positive side are:

	1985:4	1986:1
Residential Construction	$175.5	$177.8
Business Inventories	$18.2	$34.6

After eliminating increases in automobile stocks, others show regular increments equally split among manufacturing, construction and mining.

KEDI forecast shows improvements in the rest of the year with moderate growth.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates

	*----Gross National Product----					*
INDICATOR	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1984*	3492.0	2239.9	661.3	-85.0	292.5	383.3
1985:1*	3547.8	2288.6	639.6	-71.8	304.3	387.1
2*	3557.4	2303.5	655.6	-101.1	305.8	393.6
3*	3584.1	2329.6	645.0	-119.8	331.2	398.1
4*	3590.8	2330.4	655.7	-140.7	349.0	396.5
YEAR	3570.0	2313.0	649.0	-108.3	322.6	393.8
% change from '84	2.2	3.3	-1.9	27.5	10.3	2.7
1986:1	3623.5	2353.7	680.7	-130.3	319.7	399.7
2	3656.7	2367.6	687.4	-125.3	325.6	401.4
3	3687.1	2371.5	692.5	-116.4	334.7	404.8
4	3718.2	2389.5	695.9	-113.8	338.5	408.1
YEAR	3671.4	2370.6	689.1	-121.5	329.6	403.5
% change from '85	2.8	2.5	6.2	12.1	2.2	2.5
1987:1	3756.0	2416.2	702.7	-114.2	340.6	410.7
2	3788.3	2419.4	712.6	-101.4	344.3	413.4
3	3825.6	2436.0	719.3	-97.3	349.4	418.2
4	3849.8	2448.7	723.4	-96.2	351.1	422.8
YEAR	3804.9	2426.3	714.5	-102.3	350.1	416.3
% change from '86	3.6	2.4	3.7	-15.8	6.2	3.2

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

PRICE DECLINES ARE OVER!
OIL STABILIZING.

All indications are that consecutive declines in the Consumer Price Index (CPI) and the Producer Price Index (PPI) finished with April data.

PPI for finished goods declined 1.1% in March and .6% in April. Excluding energy and food shows an increase of .6% in March and .2% in April.

Do not expect dramatic increases in the next few months:

* Price of Crude materials not go up significantly the rest of this year. This will keep the index from increasing too fast.

* Prices of food will stabilize through 1986.

* Effects of the decrease in the international value of the dollar will start to ripple through the economy late this year. The main upward push will come in 1987.

1986
FORECAST
DATA

Percent Change
from
May 1986
Forecast

+	.07%	Pers. cons. expend.
+	.03%	Prod. Price Index
+	.02%	Cons. Price Index
	0.00	GNP
	0.00	Fed. Govt. Purch.
-	.06%	State Local Purch.

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

	---Indexes--		*-------Price deflators--------*			
INDICATOR	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1984*	311.1	292.1	108.1	108.2	107.0	105.9
1985:1*	317.4	292.8	110.4	110.3	109.9	114.4
2*	321.2	293.7	111.3	111.3	110.4	116.1
3*	323.5	292.8	112.8	111.9	110.1	117.5
4*	326.5	296.2	113.1	113.0	109.7	119.4
YEAR	322.1	293.9	111.9	111.6	110.0	116.8
% change from '84	3.6	.6	3.5	3.2	2.8	10.3
1986:1	327.3	292.3	113.7	113.4	111.9	120.0
2	327.8	291.9	114.3	113.7	112.6	121.2
3	328.4	293.0	114.9	114.5	113.7	121.7
4	329.5	295.6	115.9	115.7	115.0	122.8
YEAR	328.2	293.2	114.7	114.2	113.3	121.4
% change from '85	1.9	-.2	2.5	2.3	3.0	3.9
1987:1	330.9	297.3	116.6	116.1	115.7	124.1
2	333.1	301.4	117.8	118.0	117.1	125.2
3	335.6	306.0	118.6	118.4	118.1	127.1
4	337.9	308.2	120.3	120.2	119.5	129.3
YEAR	334.4	303.2	118.3	118.2	117.6	126.4
% change from '86	1.9	3.4	3.2	3.5	3.8	4.1

*Historical data.

**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1986
FORECAST
DATA

Percent Change
from
May 1986
Forecast

+ 7.42%	Net Exports
+ 1.42%	Gross Private Dom. Inv.
+ 1.40%	Federal Govt. Purch.
+ .21%	GNP
+ .06%	State Local Purch.
- .05%	Pers. Cons. Expend.

FORECAST DATA SHOWS IMPROVEMENTS OF NOMINAL GNP THROUGHOUT THIS YEAR AND NEXT YEAR.

CONSUMER SPENDING:
In the second half of this year, consumer spending on durables such as household furnishings, appliances, building materials, and other durables will accelerate. It will go higher in 1987 with strong purchases of automobiles and parts. This will bring the consumer spending on DURABLES to a more normal proportion of total spending when compared to spending on durables this year.

EXPORT-IMPORT gap will continue its decline to more normal levels.

BUSINESS CAPITAL SPENDING in 1987 will resume its upward trend mainly for equipment. Building of office space and new production facilities will increase only moderately.

FEDERAL AND STATE AND LOCAL SPENDING will accelerate slightly in the second half of 1987.

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates

INDICATOR	*-----------Gross National Product					---------------*
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	3774.1	2423.0	674.0	-59.2	312.9	423.9
1985:1*	3917.5	2525.0	657.8	-42.3	334.4	442.8
2*	3960.6	2563.3	672.8	-70.3	337.7	457.1
3*	4016.9	2606.8	666.1	-87.8	364.8	467.7
4*	4059.3	2634.8	688.7	-113.4	384.7	472.5
YEAR	3994.9	2581.9	671.4	-78.5	355.4	460.0
% change from ~~'84~~	5.8	6.6	-.4	32.5	13.6	8.5
1986:1	4119.9	2669.1	715.4	-99.8	357.7	479.6
2	4179.6	2692.2	724.6	-90.3	366.6	486.5
3	4236.5	2715.0	730.5	-82.2	380.6	492.6
4	4309.4	2764.7	738.2	-72.3	389.3	501.1
YEAR	4211.3	2710.2	727.2	-86.2	373.5	490.0
% change from '85	5.4	5.0	8.3	9.8	5.1	6.5
1987:1	4379.5	2804.2	740.5	-69.0	394.1	509.7
2	4462.6	2854.8	750.6	-63.5	403.2	517.6
3	4537.2	2883.5	766.2	-56.7	412.6	531.5
4	4631.3	2944.2	774.3	-53.4	419.6	546.7
YEAR	4502.2	2866.9	757.9	-60.6	407.4	526.4
% change from '86	6.9	5.8	4.2	-29.6	9.1	7.4

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1986
FORECAST
DATA

Percent Change from May 1986 Forecast

+ .22%	Umemployment rate
0.00%	Agriculture
- .01%	Population.
- 1.07%	Civilian labor force
- 1.12%	Total employed
- 1.15%	Non Agri.

CIVILIAN LABOR FORCE WILL INCREASE CLOSE TO 3% THROUGH 1987.

Data for employment are growing somewhat faster with a resultant decline in unemployment rate.

Main increases occur in service producing industries.

Construction will be flat in nonresidential segment with slight increases in the residential and road repair and construction segments.

Mining: flat in coal, earth and stone minerals, and copper. Further declines in oil and oil exploration.

Manufacturing will show slight increases.

Transportation: more jobs in trucking; flat in other modes of transportation.

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates

INDICATOR	Population	Civil. labor force	*-------Employment-------*			Unemployment rate
			Total	Agricult.	Non-agric.	
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1984*	237.4	113.5	105.0	3.4	101.6	7.52
1985:1*	239.8	115.2	107.1	3.4	103.4	7.32
2*	240.9	115.2	106.9	3.3	103.6	7.31
3*	242.3	115.5	107.2	3.0	104.2	7.17
4	243.7	116.2	108.0	3.1	104.9	7.02
YEAR	241.7	115.4	107.4	3.2	104.2	7.21
% change from '84	1.8	1.7	1.6	-5.9	2.5	-4.19
1986:1	244.5	117.0	108.7	3.1	105.6	7.06
2	245.9	117.8	109.6	3.1	106.5	6.95
3	247.3	118.7	110.5	3.1	107.4	6.88
4	249.8	117.4	109.4	3.1	106.3	6.85
YEAR	246.9	117.7	109.6	3.1	106.5	6.93
% change from '85	2.2	2.0	2.1	-3.1	2.2	-3.75
1987:1	250.7	120.5	112.2	3.1	109.1	6.90
2	252.6	121.7	113.4	3.1	110.3	6.80
3	254.3	122.9	114.6	3.1	111.5	6.74
4	256.5	123.9	115.7	3.1	112.6	6.64
YEAR	253.5	122.2	114.0	3.1	110.9	6.77
% change from '86	2.7	3.8	3.9	0.0	4.1	-2.38

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

STRONG BUILDING ACTIVITY TO CONTINUE FOR SEVERAL MORE MONTHS.

- * Declining mortgage rates will not last too long. KEDI agrees with majority of economists who predict that mortgage rates are close to the bottom.
- * Tax overhaul legislation continues to fuel activity in housing. If a new tax system is enacted this year it is expected to curtail benefits in the real estate sector. This results in a BUILD NOW mentality before the tax law comes into effect.

Expect flat and possible declines in single-family starts in 1987.

Look for strong mult-family starts resulting from the postponed projects over tax legislation uncertainties.

1986
FORECAST
DATA

Percent Change
from
May 1986
Forecast

+	.83%	1-Family unit price new
+	.82%	1-Family unit price existing
+	.59%	Multi-family starts
+	.45%	Mobile Home Shipments
+	.21%	Permits
-	.48%	Single family housing starts

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home shipments mil.	Permits authorized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1984*	1.084	.665	.295	1.682	97.0	87.0
1985:1*	1.121	.674	.277	1.709	98.5	87.3
2*	1.076	.693	.281	1.731	100.8	90.6
3*	1.029	.641	.285	1.762	100.4	92.4
4*	1.060	.680	.291	1.736	104.5	91.1
YEAR	1.071	.672	.283	1.735	101.0	90.3
% change from '84	-1.2	1.1	-3.9	3.1	4.2	3.9
1986:1	1.257	.733	.274	1.839	103.5	91.8
2	1.269	.696	.280	1.799	104.5	94.7
3	1.164	.678	.287	1.791	105.6	96.1
4	1.071	.641	.280	1.690	109.1	97.3
YEAR	1.190	.687	.280	1.780	105.7	95.0
% change from '84	11.1	2.2	-1.1	2.6	4.6	5.1
1987:1	1.164	.672	.284	1.657	109.8	99.4
2	1.240	.709	.302	1.873	110.6	100.5
3	1.271	.768	.310	1.995	111.8	102.4
4	1.183	.695	.291	1.894	113.2	104.6
YEAR	1.214	.711	.297	1.855	111.3	101.7
% change from '85	2.0	3.5	5.9	4.2	5.4	7.1

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

AFTER SLUGGISH APRIL AND WEAK MAY, DO NOT EXPECT SIGNIGIFICANT IMPROVEMENT THROUGHOUT THIS YEAR.

- * U. S. automakers cannot proceed with incentives forever. The 5-6% interest rates are seen here as a bottom.
- * Imported car sales will remain strong despite appreciation of the Japanese yen. The imported car market remains strong at 19.6% of total U.S. car sales for April compared to 19.3% in March.
- * Light trucks will continue to keep U.S. auto production lines busy as a strong market is forecast through 1987.

1986 FORECAST DATA

Percent Change from May 1986 Forecast

- 6.41%	Total light truck sales
- 3.23%	Imports
- 1.58%	Domestic car sales
- 1.15%	Total car sales
- .96%	Shipments
0.00%	Dealer inventory

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1984*	10.4	8.0	2.4	1.4	8.0	3.3
1985:1*	10.9	8.4	2.4	1.6	8.3	3.7
2*	10.9	8.2	2.7	1.6	8.0	3.6
3*	12.4	9.5	2.9	1.2	9.3	3.6
4*	10.3	7.4	3.3	1.3	7.9	3.9
YEAR	11.1	8.4	2.8	1.3	8.4	3.7
% change from '84	7.0	4.7	17.7	-7.1	4.7	12.1
1986:1	10.7	7.9	2.8	1.8	7.7	3.4
2	10.6	7.6	3.0	1.9	7.8	3.6
3	11.0	7.8	3.2	1.7	7.7	3.7
4	10.8	7.8	3.0	1.7	7.7	3.9
YEAR	10.8	7.8	3.0	1.7	7.7	3.6
% change from '85	-3.1	-9.3	6.2	30.8	-7.8	-1.4
1987:1	10.7	7.7	3.0	1.8	7.8	3.7
2	11.2	8.0	3.2	1.7	8.0	3.9
3	11.4	8.1	3.3	1.7	8.2	4.2
4	11.8	8.5	3.3	1.7	8.5	4.3
YEAR	11.3	8.1	3.2	1.6	8.1	4.0
% change from '86	4.6	-2.0	6.7	-5.9	5.2	10.3

---

*Historical data.

**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1986
FORECAST
DATA

Percent Change
from
May 1986
Forecast

+13.65%	State local surplus/ deficit
+ 4.85%	Surplus/ deficit
+ .87%	Federal income tax
+ .08%	State income tax
- 6.73%	State local corp. tax accrued
-13.06%	Corp. profit tax accru.

FEDERAL DEFICIT REDUCTION TARGETS FOR FISCAL YEARS 1987 AND 1988 CAN ONLY BE ACHIEVED WITH TAX INCREASE OF $10-15 BILLION.

Federal Budget Reductions	without new tax	with new tax
	(billions)	
FY 1987	$125	$110
FY 1988	90	75

Gramm-Rudman deficit-reduction targets call for $108 billion in fiscal year 1987 and $72 billion in fiscal year 1988.

KEDI forecast data of federal receipts of the U.S. Senate version of the tax overhaul bill for fiscal years 1988-1991 DO NOT show any signicant fluctuations in year-to-year data with or without adjustments in the Individual Retirement Accounts.

KEDI supports the U. S. Senate version as being the most beneficial to the economy in both the short and long run.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates

INDICATOR	*-----FEDERAL----------*			*---STATE AND LOCAL----*		
	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	311.3	74.4	-172.9	130.5	19.2	64.4
1985:1*	363.9	65.9	-165.6	137.8	17.5	63.2
2*	321.8	65.0	-209.1	141.1	17.3	57.3
3*	355.4	68.9	-201.3	142.9	18.5	56.9
4*	362.1	71.1	-224.2	146.3	19.2	59.4
YEAR	350.8	67.7	-200.1	142.0	18.1	59.2
% change from '84	12.7	-9.0	15.7	8.8	-5.6	-8.1
1986:1	366.0	61.3	-210.5	147.9	17.1	64.6
2	371.8	66.2	-200.2	149.6	20.0	65.7
3	379.9	67.8	-193.6	155.2	20.2	67.2
4	395.3	70.4	-186.7	158.6	20.3	69.8
YEAR	378.2	66.4	-197.8	152.8	19.4	66.8
% change from '85	7.8	-1.9	-1.1	7.6	7.0	12.9
1987:1	403.4	74.5	-180.5	163.0	21.0	71.3
2	413.2	78.6	-174.7	163.9	22.6	72.8
3	420.8	88.3	-170.8	166.1	23.1	74.4
4	433.1	90.1	-165.4	169.1	23.8	75.8
YEAR	417.6	82.9	-172.8	165.5	22.6	73.6
% change from '86	10.4	24.8	-12.6	8.3	16.6	10.1

---

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

PERSONAL INCOME AND PERSONAL DISPOSABLE INCOME CONTINUE GOOD GROWTH IN 1986 AND 1987.

The growth in both aggregates is commensurate with the growth of Nominal GNP and Nominal Personal Consumption Expenditures. There are no signs of declines.

The main portion of Personal Income, Compensation of Employees will grow faster in 1986-1987 than the total of PPI (See Table 1.60 on page 23).

Personal Disposable Income will stay in good proportion to the PI meaning no increasing portion of taxes eating from individual income is forecasted.

Do not expect any significant increase in PERSONAL SAVINGS earlier than in 1987 and following years.

CORPORATE PROFITS compared to May forecast has been reduced, mainly because of higher than expected losses in oil and oil exploration industries.

1986
FORECAST
DATA

Percent Change
from
May 1986
Forecast

+ 1.20%	Personal savings
+ .08%	Personal income
- .02%	Personal disp. income
- .09%	Comp. of empl.
- .40%	Average weekly earnings
- 4.96%	Corp. after tax

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1984*	3111.9	2670.2	2221.3	144.0	172.5	368.5
1985:1*	3240.9	2739.2	2320.4	136.6	130.9	374.6
2*	3280.1	2817.7	2356.9	136.4	167.2	378.5
3*	3298.5	2800.2	2358.2	141.1	102.6	384.6
4*	3354.3	2845.9	2427.5	149.5	115.2	390.3
YEAR	3293.4	2800.8	2365.8	140.9	129.0	382.0
% change from '84	5.8	4.9	6.5	-2.2	-25.2	3.7
1986:1	3408.4	2894.5	2462.8	139.5	126.3	391.2
2	3441.3	2919.9	2521.3	146.3	127.5	393.0
3	3481.0	2945.9	2447.6	150.1	129.8	395.3
4	3553.3	2999.4	2590.1	159.8	132.9	402.9
YEAR	3471.0	2939.9	2505.4	148.9	129.1	395.6
% change from '85	5.4	5.0	5.9	5.7	.1	3.6
1987:1	3608.8	3042.4	2648.3	160.4	135.7	404.2
2	3673.0	3095.9	2690.6	170.0	138.0	411.0
3	3713.6	3126.7	2574.3	174.1	139.4	414.2
4	3792.3	3190.1	2810.2	178.7	141.6	419.5
YEAR	3696.9	3113.8	2680.8	170.8	138.7	412.2
% change from '86	6.5	5.9	7.0	14.7	7.4	4.2

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1986
FORECAST
DATA

Percent Change
from
May 1986
Forecast

+ .14%	Currency & demand deposits
+ .25%	Time deposits adjust.
0.00%	Consumer install. credit
0.00%	Comm. & industrial loans at banks
0.00%	Large denom. time deposits
0.00%	Mortg. at S&L Assns.

KEDI DOES NOT EXPECT THE FED TO ADOPT EASIER MONETARY POLICY FOR SEVERAL MONTHS.

Although the seasonally adjusted data on Ml and M2 are highly suspicious (possibly the seasonal adjustment factor used by the Fed is problematic), a look at "seasonally adjusted" and "not seasonally adjusted" data shows that the money supply growth has been too high.

There is confusion with seasonally adjusted data on the money supply widely used by the financial community:
Money supply, Ml, seasonally adjusted ROSE in the March-April period by $17.6 billion amounting to an approximate 28% annual rate--an unbelievably high rate. However, not seasonally adjusted data for the same period shows that the same money supply, Ml, FELL by $4 billion.

TAKE YOUR PICK!

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2, s.a.	Cons. instal. credit n.s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	545.0	2277.4	460.5	469.0	416.8	555.3
1985:1*	568.1	2417.0	471.6	481.2	421.0	559.3
2*	583.0	2455.1	495.8	484.3	422.7	569.3
3*	604.1	2513.5	524.4	487.2	425.6	575.6
4*	619.2	2550.5	549.9	493.9	436.5	587.0
YEAR	593.6	2484.0	549.9	493.9	436.5	587.0
% change from '84	8.9	9.1	19.4	5.3	4.7	5.7
1986:1	627.7	2580.5	552.3	496.0	450.4	597.1
2	642.1	2638.7	561.4	500.8	459.8	604.6
3	644.3	2744.6	569.7	507.4	460.5	610.9
4	650.2	2790.2	575.2	515.2	463.6	617.8
YEAR	641.1	2688.5	575.1	516.2	463.1	615.3
% change from '85	8.0	8.2	4.6	4.5	6.1	4.8
1987:1	658.4	2850.3	583.8	524.0	467.4	622.9
2	665.3	2910.4	591.6	529.8	470.6	630.0
3	673.2	2985.5	599.2	536.1	475.2	640.2
4	680.3	3043.1	605.4	542.9	480.7	646.3
YEAR	669.3	2947.3	605.1	543.1	479.6	648.3
% change from '86	4.4	9.6	5.2	5.2	3.6	5.4

*Historical data. n.s.a: not seasonally adusted.
s.a.: seasonally adjusted at annual rates. Data for M1, M2, and Comm. and Ind. Loans after the February revision.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1986
FORECAST
DATA

Percent Change
from
May 1986
Forecast

+ .55%	S & P's 500 avg
+ .35%	20 yr. Govt. bonds yields
- .12%	Conv. mortg. rate
- .78%	Prime rate
- 3.94%	Treas. bills 3 mo. yield
- 4.35%	Aaa corp. bond rate

KEDI STILL FORECASTS

FURTHER DECLINE IN

INTEREST RATES THROUGHOUT

SECOND HALF OF THIS YEAR.

The growth of the U.S. will continue at a moderate pace--the economy will NOT boil enough to require higher interest rates to dampen growth. THERE WILL BE NO EXPLOSIVE GROWTH.

LOW INTEREST RATES ARE NEEDED TO STIMULATE THE ECONOMY TO PREVENT IT FROM FALLING INTO STAGNATION.

An increase in U.S. interest rates would cause increases in interest rates throughout the world. This is contrary to the policy adopted by industrialized nations to stimulate the overall economic growth through low interest rates.

Higher interest rates in 1987 and the following years, coupled with the impact of tax overhaul legislation would have a detrimental effect on U.S. corporate business.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

INDICATOR Unit	Treas. bills 3 mo. yield %	Prime rate %	Conv. mortg rate %	Aaa corp. bond rate %	20 yr. Govt. bonds yield %	S & P's 1941-43 500 Avg %
Year & Qtr.						
1984*	9.52	12.04	13.84	12.71	12.48	160.50
1985:1*	8.18	10.54	13.28	12.06	11.41	177.30
2*	7.52	10.20	12.76	11.63	11.15	184.80
3*	7.11	9.50	12.58	11.03	10.74	188.30
4*	7.13	9.50	12.11	10.58	10.22	197.08
YEAR	7.48	9.93	12.68	11.32	10.88	186.87
% change from '84	-21.4	-17.5	-8.4	-10.9	-12.8	16.4
1986:1	7.01	9.41	11.13	9.74	9.01	221.73
2	6.37	8.52	10.35	9.16	7.81	235.72
3	6.21	8.32	10.02	9.04	7.28	239.65
4	6.23	8.20	10.01	9.02	7.19	242.31
YEAR	6.46	8.61	10.38	9.24	7.82	234.85
% change from '85	-13.8	-13.3	-18.2	-18.4	-28.1	25.7
1987:1	6.19	8.18	10.16	8.87	7.11	240.86
2	6.17	8.06	10.23	8.90	7.14	243.24
3	6.19	8.10	10.29	9.04	7.16	246.75
4	6.24	8.28	10.68	9.21	7.21	251.67
YEAR	6.20	8.15	10.34	9.00	7.16	245.63
% change from '86	-4.0	-5.3	-.4	-2.5	-8.5	4.6

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Prime Rate has been selected for comparison. The actual figure has been calculated from monthly figures in the Federal Reserve Bulletin (Board of Governors of the Federal Reserve System, Washington, D.C.), May 1986 issue, page A23. Forecast data are in Business Forecasts 1985 (Federal Reserve Bank of Richmond, Virginia, February 1985). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
Prime Rate, %
Actual figure: 9.93

Forecaster (and page in source)	**Date of Forecast**	**Forecast**	**Accuracy %**
Ashland Oil, Inc., pg. 14	11/84	11.33*	-12.4
Georgia State University, p. 15	11/84	19.00	-18.5
First Interstate Band of Calif.,p.16	11/19/84	25.00*	-11.7
U.S. Chamber of Commerce, p. 20	12/84	9.90	.3
UCLA Business Forecasting Project,p.22	12/13/84	10.60	- 6.3
Wharton Econometric Forecasting Associates, Inc., p. 30	12/16/84	10.52	- 5.6
Evans Economics, Inc., p. 26	12/21/84	11.39	-12.8
Data Resources, Inc., p. 27	12/23/84	10.11	- 1.8
Chase Econometrics, p. 28	12/26/84	11.30	-12.1
Kent Economic and Development Institute, p. 32	**1/1/85**	**10.79**	**- 8.0**
Standard & Poor's Corp., p. 35	1/10/85	10.10	- 5.4
Merrill Lynch Economics, p. 36	1/14/85	8.20	- .1
The Equitable Life Assurance Society, p. 38	1/15/85	11.50	-13.7
Shearson Lehman/American Express,p.39	1/15/85	11.64	-14.7
AmeriTrust Company, p. 42	1/25/85	11.40	- 4.5

Care should be exercised when interpreting the data. Some forecasters may have different definitions of the Prime Rate.

* Calculated as average of four quarterly data.

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	SCB, Blue pages
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor°s 500 average	FRB, Table 1.36

7/24/86

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KEDI ECONOMIC SURVEY

July 1, 1986

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SOURCES:

U.S.Department of Commerce estimates of 1986:1 National Income and Product data, June 20, 1986.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, June 1986.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Look for a stronger second half 1986 with growth around three percent.

Prices

Consumer spending starting to accelerate as lower oil prices act as stimulation.

Employment & Labor

Stable, though slow, growth in employment for the balance of 1986 and in 1987.

Housing

Recent explosive building activity has peaked out and starting to taper off.

Automobiles

KEDI does not expect the June car sales momentum to continue. Light trucks remain strong.

Budgets

Forecast data shows that the target of $144 billion deficit for fiscal year 1987 will not be achieved.

Income

Healthy growth in personal income expected to continue for the rest of this year.

Money & Credit

KEDI anticipates that the Federal Open Market Committee will not tighten the growth of money supply in its July meeting.

Interest Rates, Yields & Securities Prices

KEDI, and 30 prominent economic forecasters believe that interest rates will continue declining in 1986.

0.02 ASSUMPTIONS

		Last Update
1.	In 1986, the weighted price of oil will stabilize; in 1987 it will increase slightly and continue at that level in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies will start in the second quarter of 1986, and will continue into the first part of 1987.	March 1986
3.	In 1986 and 1987 good crops in all main producing countries are anticipated.	Jan 1984
4.	Foreign trade with China will expand in 1986 and following years.	Jan 1984
5.	Average rates of growth in 1984-1990 in major industrial countries are anticipated: West Germany 3.1%; Italy 2.4%; Great Britain 2.5%; France 2,6%; Japan 2.9%.	Jan 1985
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the July 1986 KEDI forecast.

* In 1986 moderate growth is expected.

* An upward trend in 1987 is anticipated. It will continue throughout 1988 - 1990.

* Forecast data for 1986-1990 do not point to recession or major downturn.

* Financial outlook is optimistic.

* Federal budget deficits will keep declining in 1986 and the following years.

* This year's export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

Indicator	Unit	1985	1988	1989	1990
Gross national	bil. 82$	3570.0	3943.0	4081.0	4187.1
product, p. 5	% change	2.2	3.8	3.5	2.6
Index of indust.	1977=100	124.6	138.7	144.5	149.8
prod., p. 5	% change	2.3	5.2	4.2	3.7
Capacity	%	80.3	82.1	81.3	80.6
utiliz., p. 5	% change	-.6	.9	-1.0	-.9
Unemployment	%	7.2	6.7	6.5	6.6
rate, p. 5	% change	-4.2	-3.4	1.0	1.0
Private housing	mil.units	1.7	2.1	2.0	2.0
starts, p. 5	% change	-1.0	9.1	-3.5	-2.1
Car sales,	mil.units	11.1	12.4	12.1	12.0
p. 5	% change	7.0	10.1	-2.9	-.6
Implicit GNP	1972=100	111.9	122.6	127.9	133.1
price def., p. 9	% change	3.5	3.6	4.3	4.1
Consumer Price	1967=100	322.1	347.9	360.8	374.9
Index, p. 9	% change	3.6	3.2	3.7	3.9
Prod.Price Index	1967=100	293.9	316.9	332.1	341.7
(fin.goods),p.9	% change	.6	4.2	4.8	2.9
Federal Deficit	bil. $	-200.1	-149.9	-127.7	-106.9
p. 19	% change	15.7	-10.7	-14.8	-16.3
Personal Income	bil. $	3293.4	3990.9	4294.2	4603.3
p. 21	% change	5.8	7.9	7.6	7.2
Prime Rate	%	9.9	7.4	8.2	8.9
p. 25	% change	-17.5	1.6	9.8	9.1
Mortgage Rate	%	12.7	9.4	9.8	9.2
p. 25	% change	-8.4	-3.0	3.6	-5.9
Currency+demand	bil. $	593.6	714.8	757.0	794.1
deposits, p. 23	% change	8.9	6.8	5.9	4.9
Commercial+ind.	bil. $	493.9	570.0	586.0	597.7
loans, p. 23	% change	5.3	4.8	2.8	2.0
Raw steel	mil.sh.tons	88.1	92.1	91.3	91.5
production	% change	-4.8	1.7	-.9	.2
Electric power	mil.kw-hr	2576	3122	3275.0	3461.7
production	% change	6.5	6.5	4.9	5.7
Bituminous coal	mil.sh.tons	900	975	973.1	985.8
production	% change	1.2	1.9	.4	1.3
Crude oil	avg. daily bbl.	3279	2365	2339.2	2364.9
output	% change	.9	-1.9	-1.1	1.1
Retail sales	bil. $	1362.7	1660.7	1750.4	1858.9
p. 7	% change	4.9	7.8	5.4	6.2

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH

See Table 1.11
Page 5

1986
FORECAST
DATA

Percent Change from June 1986 Forecast

+ 2.16%	Unemp.
0.00%	Autos
- .19%	GNP
- .65%	Index Indus. Prod.
- .75%	Capacity util.
- 1.88%	Private Housing Starts

LOOK FOR A STRONGER SECOND HALF 1986 WITH GROWTH AROUND 3%.

The Wall Street Journal published an opinion poll of 30 forecasters on June 30, 1986:

- 1986, second half will be stronger than first half, but not robust with renewed inflation and growth at 3.4%.
- 1987, first half will not be as strong with growth at 3.1%.
- No recession predicted in the next 12 months.

KEDI agrees that there will be no recession, but then KEDI has maintained that position for YEARS!

KEDI disagrees with the optimistic growth rate for second half, 1986. It will be at the 3% level, not higher. There will be faster growth in the first half of 1987.

For the second half of 1986, KEDI believes it will be better than the first half, and agrees with Dun & Bradstreet. In their quarterly survey of 1433 executives for their opinion on second half 1986:

	% respondents	
	Previous Survey	This Survey
Higher sales in 2nd half 1986 over first half	72%	75%
Higher profits	67%	69%

TABLE 1.11
SELECTED INDICATORS I.

Quarterly data are seasonally adjusted at annual rates

INDICATOR Unit	GNP $82 bil.	Index of ind. prod 1977=100	Unemployment %	Capacity util'n rate %	Private housing starts mil.	Auto sales mil.
Year & Qtr.						
1984*	3492.0	121.8	7.52	80.8	1.750	10.4
1985:1*	3547.8	123.8	7.32	80.5	1.793	10.9
2*	3557.4	124.4	7.31	80.4	1.769	10.9
3*	3584.1	124.8	7.17	80.3	1.641	12.4
4*	3590.8	125.3	7.02	80.1	1.729	10.3
YEAR	3570.0	124.6	7.21	80.3	1.733	11.1
% change from '84	2.2	2.3	-4.2	-.6	-1.0	7.0
1986:1*	3616.9	124.5	7.06	79.8	1.990	10.7
2	3650.1	124.7	7.16	79.1	1.908	10.7
3	3681.1	125.1	7.09	80.1	1.851	11.0
4	3710.3	126.4	7.01	80.6	1.708	10.8
YEAR	3664.6	125.2	7.08	79.9	1.864	10.8
% change from '85	2.6	.5	-1.7	-.5	7.6	-2.9
1987:1	3750.1	128.0	6.98	80.9	1.822	10.7
2	3782.4	130.2	6.94	81.1	1.941	11.2
3	3820.1	133.1	6.89	81.6	1.963	11.4
4	3842.1	135.9	6.82	82.0	1.875	11.8
YEAR	3798.7	131.8	6.91	81.4	1.900	11.3
% change from '86	3.7	5.3	-2.4	1.9	1.9	4.4

*Historical data.

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1986
FORECAST
DATA

Percent Change
from
June 1986
Forecast

+	.85%	Retail sales nondur.
+	.56%	Retail Sales Total
+	.07%	Retail Sales durable
+	.07%	Pers. con. exp. durables
+	.05%	Pers. con. exp. services
-	.29%	Pers. con. exp. nondurable

CONSUMER SPENDING STARTING TO ACCELERATE AS LOWER OIL PRICES ACT AS STIMULATION.

* May was up .9% while April was only .5%

* All three categories, durables, nondurables and services show good signs.

* Early data for June indicate that consumer spending remains strong.

FOR SECOND HALF, 1986, EXPECT:

* Strong sales of furniture and home furnishings

* Flat building materials

* Slow increases in sales of gasoline stations

* Good sales apparel

* Slow, but persistent increases in general merchandise stores

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	--Personal Cons. Expend.-			*------Retail Sales-------*		
INDICATOR	Durables	Nondurables	Services	Total	Durables	Nondurables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1984*	331.1	874.4	1219.5	1297.0	464.3	832.7
1985:1*	351.5	895.7	1277.8	1339.7	489.8	849.9
2*	356.5	910.2	1296.6	1375.9	511.1	864.8
3*	376.0	914.5	1315.6	1403.7	532.8	870.9
4*	362.0	928.3	1344.6	1391.6	512.5	879.1
YEAR	361.5	912.2	1308.6	1377.7	511.6	866.2
% change from '84	9.2	4.3	7.3	6.2	10.2	4.0
1986:1	363.1	935.6	1369.5	1410.7	526.4	884.3
2	370.7	950.0	1367.2	1428.5	532.0	896.5
3	389.9	957.1	1365.4	1448.1	538.9	909.2
4	397.0	944.8	1423.5	1465.3	548.5	916.8
YEAR	380.2	946.9	1381.4	1438.2	536.5	901.7
% change from '85	5.2	3.8	5.6	4.4	4.9	4.1
1987:1	405.1	975.0	1423.2	1492.7	551.6	941.1
2	412.3	978.3	1464.1	1521.5	569.8	951.7
3	420.9	991.2	1467.7	1558.7	590.5	968.2
4	428.0	1011.3	1501.4	1589.2	599.3	989.9
YEAR	416.6	989.0	1464.1	1540.5	577.8	962.7
% change from '86	9.6	4.4	6.0	7.1	7.7	6.8

1.13 REAL GNP

See Table 1.13
Page 9

FINAL DATA on GNP, Income and components for the first quarter of 1986, released June 20 by the Department of Commerce shows 2.9% growth

Components of GNP in constant 82$ comparing 1986:1 to 1985:4:

- Personal Consumption Expenditures show a strong increase of 26.9
- Net Exports continue to improve with a -2.7
- Residential investment shows solid increases at 4.1
- Normal increment in State and Local spending at +2.7, as well as Federal spending at -29.9 after adjustment due to financing inventories of agricultural products
- Resumption of buildup of inventories after two quarters of decline at +41.6
- Weakness in business capital formation in oil and oil-related industries

1986
FORECAST
DATA

Percent Change
from
June 1986
Forecast

+ 3.91%	Net Exports
+ .15%	Gross Private Dom. Inv.
+ .01%	Pers. cons. expend.
- .19%	GNP
- .33%	State local purch.
- .58%	Federal govt. purchases

TABLE 1.13
REAL GNP

Quarterly data are seasonally adjusted at annual rates

	-----------Gross National Product---------------					
INDICATOR	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1984*	3492.0	2239.9	661.3	-85.0	292.5	383.3
1985:1*	3547.8	2288.6	639.6	-71.8	304.3	387.1
2*	3557.4	2303.5	655.6	-101.1	305.8	393.6
3*	3584.1	2329.6	645.0	-119.8	331.2	398.1
4*	3590.8	2330.4	655.7	-140.7	349.0	396.5
YEAR	3570.0	2313.0	649.0	-108.3	322.6	393.8
% change from '84	2.2	3.3	-1.9	27.5	10.3	2.7
1986:1*	3616.9	2352.1	684.6	-138.1	319.1	399.2
2	3650.1	2368.1	687.4	-129.7	324.0	400.3
3	3681.1	2373.2	692.5	-120.8	333.1	403.1
4	3710.3	2390.1	695.9	-116.4	334.6	406.1
YEAR	3664.6	2370.9	690.1	-126.2	327.7	402.2
% change from '85	2.6	2.5	6.3	16.5	1.6	2.1
1987:1	3750.1	2418.4	702.7	-117.3	338.1	408.2
2	3782.4	2423.2	712.6	-105.2	341.6	410.2
3	3820.1	2436.3	719.3	-99.8	346.7	417.6
4	3842.1	2449.7	723.4	-99.2	348.2	420.0
YEAR	3798.7	2425.5	714.5	-105.4	350.1	414.0
% change from '86	3.7	2.3	3.5	-16.5	6.8	2.9

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

SLIGHT INCREASES IN CPI THROUGH SECOND HALF 1986, PICKING UP SPEED IN 1987.

PPI FLAT FOR THE REST OF 1986, ACCELERATING IN 1987.

- Prices of fuel oil, gasoline, and electricity will show slight increases in second half 1986 with only slight acceleration in 1987.
- Natural gas prices will stabilize.
- No more significant increases in food and beverage prices.
- Apparel and shoes will remain flat.
- Prices of imported raw materials will go up from their depressed levels. In 1987, expect above average increases in prices of basic materials, steel, coal, oil, copper, aluminum, rubber, lumber, and stone, clay and glass.

1986 FORECAST DATA

Percent Change from June 1986 Forecast

+ .04%	Consumer Price Index
+ .02%	GNP
+ .02%	State Local Purch.
0.00%	Federal Govt. Purch.
0.00%	Producer Price Index
- .16%	Pers. Cons. Expend.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

	---Indexes--		*-------Price deflators--------*			
INDICATOR	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1984*	311.1	292.1	108.1	108.2	107.0	105.9
1985:1*	317.4	292.8	110.4	110.3	109.9	114.4
2*	321.2	293.7	111.3	111.3	110.4	116.1
3*	323.5	292.8	112.8	111.9	110.1	117.5
4*	326.5	296.2	113.1	113.0	109.7	119.4
YEAR	322.1	293.9	111.9	111.6	110.0	116.8
% change from '84	3.6	.6	3.5	3.2	2.8	10.3
1986:1*	327.3	292.3	113.8	113.2	111.9	120.0
2	327.8	292.0	114.3	113.5	112.6	121.2
3	328.5	292.9	114.9	114.3	113.7	121.7
4	329.7	295.6	115.9	115.7	115.0	122.8
YEAR	328.3	293.2	114.7	114.0	113.3	121.4
% change from '85	1.9	-.2	2.5	2.1	3.0	3.9
1987:1	332.8	297.8	116.6	115.9	115.7	124.1
2	335.6	302.4	117.8	117.8	117.1	125.2
3	338.8	306.9	118.6	118.2	118.1	127.1
4	341.3	309.3	120.3	120.0	119.5	129.3
YEAR	337.1	304.1	118.3	118.0	117.6	126.4
% change from '86	2.7	3.7	3.1	3.5	3.8	4.1

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1986
FORECAST
DATA

Percent Change
from
June 1986
Forecast

+	.03&	Gross Private Dom. Inv.
-	.06%	Net Exports
-	.02%	Pers. Cons. Expend.
-	.16%	GNP
-	.34%	State Local Purch.
-	.57%	Fed. Govt. Purch.

MANY INDICATORS POINT TO A FASTER GROWTH IN SECOND HALF OF 1986.

Index of leading indicators were up again in May by +.8% Components contributing to to the increase were:

- * Prices of sensitive materials were up.
- * Money supply up.
- * Stock prices up.
- * Contracts and orders for plants and equipment increased.
- * Borrowing up.
- * Number of companies receiving slower deliveries from suppliers increased.
- * Residential spending up.

ALL OF THIS POINTS TO CONTINUED GROWTH IN SECOND HALF 1986, HOWEVER, NEW FACTORY ORDERS AND UNFILLED ORDERS WERE FLAT IN MAY.

Durable orders and factory shipments were up slightly in May.

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates

	-----------Gross National Product---------------					
INDICATOR Unit	Total bil. $	Pers. cons. expend. bil. $	Gross pvt. dom invest. bil. $	Net exports bil. $	Fed. govt. purch. bil. $	State local purch. bil. $
Year & Qtr.						
1984*	3774.1	2423.0	674.0	-59.2	312.9	423.9
1985:1*	3917.5	2525.0	657.8	-42.3	334.4	442.8
2*	3960.6	2563.3	672.8	-70.3	337.7	457.1
3*	4016.9	2606.8	666.1	-87.8	364.8	467.7
4*	4059.3	2634.8	688.7	-113.4	384.7	472.5
YEAR	3994.9	2581.9	671.4	-78.5	355.4	460.0
% change from '84	5.8	6.6	-.4	32.5	13.6	8.5
1986:1*	4115.8	2668.2	717.2	-99.8	357.1	479.0
2	4172.1	2687.9	724.5	-90.3	364.8	485.2
3	4229.6	2712.4	730.1	-82.2	378.7	490.6
4	4300.2	2765.3	737.9	-72.3	384.8	498.7
YEAR	4204.4	2708.4	727.4	-86.2	371.4	488.4
% change from '85	5.2	4.9	8.4	9.8	4.5	6.2
1987:1	4372.6	2803.3	740.6	-69.0	391.2	506.6
2	4455.7	2854.7	750.9	-63.5	400.0	513.6
3	4530.6	2879.8	767.3	-56.7	409.5	530.8
4	4622.0	2940.7	775.6	-53.4	416.1	543.1
YEAR	4494.8	2861.7	758.6	-60.6	404.2	523.5
% change from '86	6.9	5.7	4.3	-29.6	8.8	7.2

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1986
FORECAST
DATA

Percent Change
from
June 1986
Forecast

+ 2.16%	Unemployment rate
0.00%	Agriculture
- .01%	Population.
- .06%	Civilian labor force
- .28%	Total employed
- .28%	Non-Agri.

STABLE, THOUGH SLOW, GROWTH IN EMPLOYMENT FOR THE BALANCE OF 1986 AND IN 1987.

Unemployment rate will hover around the 7% level in second half of 1986 and drop slightly below 7% in 1987.

For the balance of this year:

* Construction in residential will level off with slight increases in public construction projects and decreases in the commercial segment.

* Coal mining will level off along with stone, clay and glass with further drops in oil extraction and exploration.

* Durables manufacturing will level off except that electronics will show slight increases.

* Nondurables manufacturing will be up slightly in food and kindred products.

* Strong gains in services: health sector, finance, insurance, real estate, business services, advertising, building maintenance and data processing.

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates

INDICATOR	Population	Civil. labor force	Employment: Total	Employment: Agricult.	Employment: Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1984*	237.4	113.5	105.0	3.4	101.6	7.52
1985:1*	239.8	115.2	107.1	3.4	103.4	7.32
2*	240.9	115.2	106.9	3.3	103.6	7.31
3*	242.3	115.5	107.2	3.0	104.2	7.17
4	243.7	116.2	108.0	3.1	104.9	7.02
YEAR	241.7	115.4	107.1	3.2	103.9	7.21
% change from '84	1.8	1.7	1.6	-5.9	2.3	-4.19
1986:1	244.5	117.0	108.7	3.1	105.6	7.06
2	245.9	117.7	109.3	3.1	106.2	7.16
3	247.3	118.6	110.2	3.1	107.1	7.09
4	249.8	117.2	109.0	3.1	105.9	7.01
YEAR	246.9	117.6	109.3	3.1	106.2	7.08
% change from '85	2.2	1.9	2.0	-3.1	2.2	-1.73
1987:1	250.7	119.7	111.3	3.1	108.2	6.98
2	252.6	121.0	112.6	3.1	109.5	6.94
3	254.3	122.1	113.7	3.1	110.6	6.89
4	256.5	122.8	114.4	3.1	111.3	6.82
YEAR	253.5	121.4	113.0	3.1	109.9	6.91
% change from '86	2.7	3.2	3.3	0.0	3.5	-2.44

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1986
FORECAST
DATA

Percent Change
from
June 1986
Forecast

+ .62%	Multiple housing starts
0.00%	Single family new
- .18%	Single family existing
- .40%	Single Family Housing Starts
- 1.16%	Multiple Family Housing Starts
- 5.20%	Permits

RECENT EXPLOSIVE BUILDING ACTIVITY HAS PEAKED AND STARTING TO TAPER OFF.

INDICATIONS OF SLOWDOWN:

* Sales of single-family homes were down -5.7% in April compared to March and down by -11.6% in May compared to April.

* Housing permits authorized dropped by -5.3% in May compared to April.

* Housing starts dropped in May compared to April. In million units, seasonally adjusted rates:

  April = 2.039
  May = 1.999

* Multi-family down by 18% in May compared to April.

EXPECT VERY WEAK MULTI-FAMILY HOUSING STARTS FOR THE REST OF 1986. VACANCY RATES ARE NOW AT 19 YEAR HIGH DUE TO OVER-BUILDING IN ANTICIPATION OF TAX REFORM BILL.

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home ship-ments mil.	Permits author-ized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1984*	1.084	.665	.295	1.682	97.0	87.0
1985:1*	1.121	.674	.277	1.709	98.5	87.3
2*	1.076	.693	.281	1.731	100.8	90.6
3*	1.029	.641	.285	1.762	100.4	92.4
4*	1.060	.680	.291	1.736	104.5	91.1
YEAR	1.071	.672	.283	1.735	101.0	90.3
% change from '84	-1.2	1.1	-3.9	3.1	4.2	3.9
1986:1	1.257	.733	.274	1.839	103.4	91.8
2	1.234	.674	.281	1.748	104.5	94.2
3	1.180	.671	.289	1.471	105.7	96.3
4	1.070	.638	.283	1.692	109.2	97.0
YEAR	1.185	.679	.282	1.688	105.7	94.8
% change from '84	10.6	1.0	-.6	-2.7	4.6	5.0
1987:1	1.162	.660	.284	1.650	109.7	99.3
2	1.240	.701	.304	1.868	110.7	100.4
3	1.273	.765	.310	1.990	111.9	101.3
4	1.185	.690	.292	1.889	113.4	103.1
YEAR	1.215	.704	.297	1.849	111.4	101.0
% change from '85	2.5	3.7	5.6	9.6	5.4	6.5

*Historical data.

**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1986
FORECAST
DATA

Percent Change
from
June 1986
Forecast

+ 5.88%	Dealer Inven.
+ .65%	Shipments
+ .55%	Total light truck sales
0.00%	Total car sales
0.00%	Domestic car sales
0.00%	Imported car sales

KEDI DOES NOT EXPECT THE JUNE CAR SALES MOMENTUM TO CONTINUE. LIGHT TRUCK MARKET WILL REMAIN STRONG FOR THE BALANCE OF THIS YEAR, BUT EXPECT MORE INCENTIVES IN LIGHT TRUCKS TO MAINTAIN VOLUME.

KEDI forecast is unchanged: less cars will be sold in 1986 than in 1985.

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1984*	10.4	8.0	2.4	1.4	8.0	3.3
1985:1*	10.9	8.4	2.4	1.6	8.3	3.7
2*	10.9	8.2	2.7	1.6	8.0	3.6
3*	12.4	9.5	2.9	1.2	9.3	3.6
4*	10.3	7.4	3.3	1.3	7.9	3.9
YEAR	11.1	8.4	2.8	1.3	8.4	3.7
% change from '84	7.0	4.7	17.7	-7.1	4.7	12.1
1986:1	10.7	7.9	2.8	1.8	7.7	3.4
2	10.7	7.7	3.0	1.9	7.8	3.6
3	11.0	7.8	3.2	1.7	7.8	3.7
4	10.8	7.8	3.0	1.8	7.7	3.9
YEAR	10.8	7.8	3.0	1.8	7.8	3.6
% change from '85	-2.9	-9.1	6.2	38.5	-7.5	-1.4
1987:1	10.7	7.7	3.0	1.8	7.8	3.7
2	11.2	8.0	3.2	1.7	8.0	3.9
3	11.4	8.1	3.3	1.7	8.2	4.2
4	11.8	8.5	3.3	1.6	8.5	4.3
YEAR	11.3	8.1	3.2	1.6	8.1	4.0
% change from '86	4.4	-2.3	6.7	-11.1	4.8	10.3

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1986
FORECAST
DATA

Percent Change
from
June 1986
Forecast

+	.52%	State local corp. tax accrued
-	.07%	State surplus/ deficit
-	.15%	Corp. profit tax accrued
-	.16%	State Income Tax
-	2.16%	Federal Income Tax

FORECAST DATA SHOWS THAT THE TARGET OF $144 BILLION DEFICIT FOR FISCAL YEAR 1987 WILL NOT BE ACHIEVED.

KEDI EXPECTS $160 BILLION DEFICIT FOR FY 1987. This does not include any new federal taxes and is difficult to predict since the final version is still in the working stages in the Congress.

It appears that the Congress and the Administration are poised to work together to hammer out the differences before Labor Day. President Reagan maintains a hard line on the tax bracket issue. He wants the tax rates to be along the lines of the Senate version of 15% to 27% and not the House version of 15 to 38%.

Also it appears that the Congress and the Administration may accept business tax rates higher than the President and the Senate proposed.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates

	-----FEDERAL----------			*---STATE AND LOCAL----*		
INDICATOR	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	311.3	74.4	-172.9	130.5	19.2	64.4
1985:1*	363.9	65.9	-165.6	137.8	17.5	63.2
2*	321.8	65.0	-209.1	141.1	17.3	57.3
3*	355.4	68.9	-201.3	142.9	18.5	56.9
4*	362.1	71.1	-224.2	146.3	19.2	59.4
YEAR	350.8	67.7	-200.1	142.0	18.1	59.2
% change from '84	12.7	-9.0	15.7	8.8	-5.6	-8.1
1986:1	356.1	62.4	-208.8	148.0	17.3	64.5
2	362.3	65.7	-198.6	149.1	20.0	65.4
3	370.8	67.0	-193.0	155.0	20.3	67.3
4	392.4	70.1	-185.2	158.1	20.4	69.8
YEAR	370.4	66.3	-196.4	152.6	19.5	66.8
% change from '85	5.6	-2.1	-1.8	7.4	7.6	12.8
1987:1	400.3	72.5	-179.3	162.5	21.0	71.0
2	408.5	76.4	-170.6	163.1	22.1	72.2
3	417.3	80.5	-160.2	165.7	22.8	74.4
4	428.9	85.3	-161.2	168.6	23.0	75.1
YEAR	413.8	78.7	-167.8	165.0	22.2	73.2
% change from '86	11.7	18.7	-14.5	8.1	14.0	9.6

---

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1986
FORECAST
DATA

Percent Change
from
June 1986
Forecast

+ 9.90%	Personal disp. income
+ 8.15%	Personal income
+ .29%	Personal savings
+ .05%	Comp. of empl.
- .21%	Average weekly earnings
- 1.14%	Corp. after tax

HEALTHY GROWTH IN PERSONAL INCOME EXPECTED TO CONTINUE FOR THE REST OF THIS YEAR.

* Fastest growing item, Compensation of Employees, will grow at 6.9% annual rate in 1987.

* Positive signs for lower interest rates reflect less people will pay on their debts.

* Decline in Personal Income in May compared to April was because farmer subsidies in May were more modest compared to unusually high subsidies paid in April.

* Other components of Personal Income in May have shown a normal, healthy growth.

* Corporate Profits compared to June forecast data has been reduced further because of higher than expected losses in oil and oil exploration industries.

TABLE 1.60
INCOME

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1984*	3111.9	2670.2	2221.3	144.0	172.5	368.5
1985:1*	3240.9	2739.2	2320.4	136.6	130.9	374.6
2*	3280.1	2817.7	2356.9	136.4	167.2	378.5
3*	3298.5	2800.2	2358.2	141.1	102.6	384.6
4*	3354.3	2845.9	2427.5	149.5	115.2	390.3
YEAR	3293.4	2800.8	2365.8	140.9	129.0	382.0
% change from '84	5.8	4.9	6.5	-2.2	-25.2	3.7
1986:1*	3397.5	2893.4	2463.1	137.0	126.0	391.2
2	3435.5	2924.1	2521.1	145.0	127.9	392.0
3	3476.6	2950.8	2448.2	149.2	130.2	393.1
4	3558.5	3008.0	2593.8	157.6	133.8	402.7
YEAR	3467.0	2944.1	2506.6	147.2	129.5	394.8
% change from '85	5.3	5.1	6.0	4.5	.4	3.3
1987:1	3611.5	3048.7	2649.0	160.1	136.0	404.1
2	3675.6	3104.0	2690.5	167.2	138.8	411.2
3	3714.7	3131.7	2573.4	172.4	140.6	414.0
4	3792.9	3195.4	2808.1	176.1	142.5	419.4
YEAR	3698.7	3119.9	2680.2	168.9	139.5	412.2
% change from '86	6.7	6.0	6.9	14.8	7.7	4.4

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1986
FORECAST
DATA

Percent Change
from
June 1986
Forecast

+	.97%	Currency & demand deposits
+	.78%	Consumer install. credit
+	.18%	Mortg. at S&L Assns.
+	.02%	Comm. & industrial loans at banks
-	.23%	Time deposits
-	.56%	Large denom. time deposits

KEDI ANTICIPATED THAT THE FEDERAL OPEN MARKET COMMITTEE WILL NOT TIGHTEN THE GROWTH OF MONEY SUPPLY AT ITS JULY MEETING. It is expected that the FOMC will let it grow with the possibility of simply raising the target ranges for M1.

KEDI has been pointing out for several months, and now more and more economists are agreeing that:

* M1, the nation's money supply has lost its usefulness as an indicator of the growth of the economy.

* M1 has grown rapidly in the past 18 months, and this year, by 15% annual rate so far with no response in the economy. Neither inflation nor rapid growth has resulted.

The FED and the public should forget M1 as its key indicator and follow the money and credit data together with M1 when evaluating the economy's needs.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	545.0	2277.4	453.6	469.0	416.8	555.3
1985:1*	568.1	2417.0	470.5	481.2	421.0	559.3
2*	583.0	2455.1	494.3	484.3	422.7	569.3
3*	604.1	2513.5	516.4	487.2	425.6	575.6
4*	619.2	2550.5	535.1	493.9	436.5	586.1
YEAR	593.6	2484.0	535.1	493.9	436.5	586.1
% change from '84	8.9	9.1	18.0	5.3	4.7	5.5
1986:1	629.8	2581.3	551.5	502.1	450.4	577.0
2	651.3	2641.3	563.5	507.8	449.8	588.3
3	653.1	2726.6	572.4	510.2	456.7	599.2
4	655.2	2780.4	579.6	516.3	460.5	616.4
YEAR	647.4	2682.4	579.6	516.3	460.5	616.4
% change from '85	9.1	8.0	8.3	4.5	5.5	5.2
1987:1	659.1	2850.1	584.7	524.8	465.3	623.5
2	666.7	2911.2	591.9	529.9	470.1	630.4
3	674.3	2985.8	599.8	537.6	475.2	641.5
4	680.6	3043.4	608.7	543.9	481.2	645.7
YEAR	669.3	2947.6	608.7	543.9	481.2	645.7
% change from '86	4.4	9.9	5.0	5.3	4.3	4.8

*Historical data. n.s.a: not seasonally adusted.
s.a.: seasonally adjusted at annual rates.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1986
FORECAST
DATA

Percent Change
from
June 1986
Forecast

+ 1.06%	S & P's 500 avg.
0.00%	Aaa corp. bond rate
- 1.70%	Treas. bills 3 mo. yield
- 1.74%	Prime rate
- 1.83%	Conv. mortg. rate
- 2.49%	20 yr. Govt. bonds yields

The Wall Street Journal's June 30, 1986 poll of 30 prominent forecasters has shown that the majority of those polled believe that interest rates will continue declining in the second half of 1986. KEDI has been predicting this for the last two years. Other results of the poll:

- Three month Treasure Bills at 6% by year end, and some at 5.6%.
- Thirty year Government bonds at 7.3%.

KEDI agrees for the following reasons:

- The September 1985 New York meeting of ministers of finance and heads of central banks--U.S.A., England, Canada, Japan and France--adopted the policy of declining interest rates.
- U.S.A. low interest rates are necessary to stimulate the U.S. economy's faster growth.
- High interest rates plus new provisions of tax overhaul bill would have a disasterous effect on U.S. industries.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P°s 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1984*	9.52	12.04	13.84	12.71	12.48	160.50
1985:1*	8.18	10.54	13.28	12.06	11.41	177.30
2*	7.52	10.20	12.76	11.63	11.15	184.80
3*	7.11	9.50	12.58	11.03	10.74	188.30
4*	7.13	9.50	12.11	10.58	10.22	197.08
YEAR	7.48	9.93	12.68	11.32	10.88	186.87
% change from '84	-21.4	-17.5	-8.4	-10.9	-12.8	16.4
1986:1*	7.01	9.41	11.13	9.74	9.01	221.72
2	6.31	8.52	10.22	9.16	7.65	240.30
3	6.07	8.00	9.71	9.04	7.01	242.50
4	6.01	7.91	9.70	9.02	6.83	244.80
YEAR	6.35	8.46	10.19	9.24	7.62	237.33
% change from '85	-15.2	-14.8	-19.7	-18.4	-29.9	27.0
1987:1	5.91	7.64	9.76	8.87	6.71	242.89
2	5.80	7.28	9.73	8.90	6.34	248.26
3	5.72	7.10	9.69	9.04	6.26	247.73
4	5.83	7.21	9.78	9.21	7.21	251.57
YEAR	5.81	7.31	9.74	9.00	6.63	247.61
% change from '86	-8.4	-13.6	-4.4	-2.5	-13.0	4.3

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Personal Saving Rate has been selected for comparison. The actual figure appears in the Federal Reserve Bulletin (Board of Governors of the Federal Reserve System, Washington, D. C.), July 1986 issue, page A52. Forecast data are in Business Forecasts 1985 (Federal Reserve Bank of Richmond, Virginia, February 1985). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
Personal Saving Rates, %
Actual figure: 4.6

Forecaster (and page in souce)	Date of Forecast	Forecast	Accuracy &
Georgia State, p. 15	11/84	4.6	.0
Core States Financial Corp., p. 18	12/84	5.6*	+21.7
Mellon Bank, p. 19	12/84	5.7	+23.9
Metropolitan Life Insurance, p. 22	12/1/84	6.5	+41.3
UCLA Business Forecasting Project,p.22	12/13/84	5.8	+26.1
Wharton Econometric Forecasting Associates, Inc., p. 30	12/16/84	6.1	+32.6
Evans Economics, Inc., p. 26	12/21/84	5.8	+26.1
Data Resources, Inc., p. 27	12/23/84	5.4	+17.4
Chase Econometrics, p. 28	12/26/84	6.2	+34.8
Manufacturers Hanover Trust, p. 29	12/26/84	5.1	+10.9
Kent Economic and Development Institute, Inc., p. 32	1/1/85	5.9	+28.3
First Nat'l Bank of Chicago, p. 33	1/7/85	6.0	+30.4
Morgan Guaranty, p. 34	1/10/85	5.8	+26.1
Standard & Poor's Corp., p. 35	1/10/85	5.4	+17.4
Equitable Life Assurance Society, p. 38	1/15/85	5.6	+21.7
Chemical Bank, p. 37	1/14/85	5.3	+15.2
AmeriTrust Company, p. 42	1/25/85	5.8	+26.1

Care should be exercised when interpreting the data. Some forecasters may have different definitions of the Saving Rate.

* Calculated as average of four quarterly data.

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accurals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt: Income taxes	SCB, Table 3.3
	Corporate profit tax accruals	SCB, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits,M1	FRB, Table 1.21
	Time depposits, adjusted, M2	FRB, Table 1,21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1,23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1,54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	SCB, Blue pages
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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KEDI ECONOMIC SURVEY

August 1, 1986

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SOURCES:

U.S.Department of Commerce estimates of 1986:2, National Income and Product data, July 20, 1986, the benchmark revision.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, July 1986.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Index of Leading Indicators up .3 in June as factory shipments continue to expand.

Prices

Outlook for Consumer Price Index remains favorable while the price of services continues to push CPI upward.

Employment & Labor

The number of jobs in manufacturing will stabilize in the second half of 1986.

Housing

KEDI forecast continues to point to a winding down in housing--too many homes have been built.

Automobiles

Recent developments in car sales confirm KEDI prediction that 1986 will not be as good as 1985.

Budgets

KEDI predicts that the Gramm-Rudman target will not be achieved for Fiscal Year 1987.

Income

Latest data on personal income and its components confirm the healthy trend KEDI has been forecasting.

Money & Credit

KEDI agrees with the economists who favor abandoning M1 as one of the key indicators of the future development of the economy.

Interest Rates, Yields & Securities Prices

Expect major declines in interest rates on credit cards with other interest rates decreasing not as drastically.

0.02 ASSUMPTIONS

		Last Update
1.	In 1986, the weighted price of oil will stabilize; in 1987 it will increase slightly and continue at that level in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies will start in the second quarter of 1986, and will continue into 1987.	August 1986
3.	In 1986 and 1987 good crops in all main producing countries are anticipated.	Jan 1984
4.	Foreign trade with China will expand in 1986 and following years.	Jan 1984
5.	Average rates of growth in 1984-1990 in major industrial countries are anticipated: West Germany 3.1%; Italy 2.4%; Great Britain 2.5%; France 2,6%; Japan 2.9%.	Jan 1985
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the July 1986 KEDI forecast.

* In 1986 moderate growth is expected.

* An upward trend in 1987 is anticipated. It will continue throughout 1988 - 1990.

* Forecast data for 1986-1990 do not point to recession or major downturn.

* Financial outlook is optimistic.

* Federal budget deficits will keep declining in 1986 and the following years.

* This year's export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

Indicator	Unit	1985	1988	1989	1990
Gross national	bil. 82$	3585.2	3923.8	4061.1	4166.7
product, p. 5	% change	2.4	3.4	3.5	2.6
Index of indust.	1977=100	124.6	138.2	143.7	149.1
prod., p. 5	% change	2.3	5.0	4.0	3.7
Capacity	%	80.3	81.9	81.1	80.3
utiliz., p. 5	% change	-.6	.9	-1.0	-.9
Unemployment	%	7.2	6.6	6.5	6.6
rate, p. 5	% change	-4.2	-3.4	1.0	1.0
Private housing	mil.units	1.7	1.9	1.9	1.8
starts, p. 5	% change	-1.0	6.9	-3.1	-2.1
Car sales,	mil.units	11.1	12.4	12.1	12.0
p. 5	% change	7.0	10.1	-2.9	-.6
Implicit GNP	1972=100	111.5	120.9	126.0	131.0
price def., p. 9	% change	3.7	3.7	4.2	4.0
Consumer Price	1967=100	322.1	347.8	360.7	374.8
Index, p. 9	% change	3.6	3.2	3.7	3.9
Prod.Price Index	1967=100	293.9	317.0	332.2	341.9
(fin.goods),p.9	% change	.6	4.2	4.8	2.9
Federal Deficit	bil. $	109.9	-157.9	-135.8	-114.4
p. 19	% change	15.1	-10.7	-14.0	-15.8
Personal Income	bil. $	3314.5	4001.0	4301.1	4610.8
p. 21	% change	6.6	7.6	7.5	7.2
Prime Rate	%	9.9	7.4	8.2	8.9
p. 25	% change	-17.5	1.6	9.8	9.1
Mortgage Rate	%	12.7	9.5	9.8	9.2
p. 25	% change	-8.4	-3.0	3.6	-5.9
Currency+demand	bil. $	593.6	715.5	757.0	794.1
deposits, p. 23	% change	8.9	6.9	5.8	4.9
Commercial+ind.	bil. $	493.9	569.7	585.6	597.3
loans, p. 23	% change	5.3	4.7	2.8	2.0
Raw steel	mil.sh.tons	88.1	92.1	91.5	91.6
production	% change	-4.8	1.5	-.7	.2
Electric power	mil.kw-hr	2576	3120	3266.6	3439.8
production	% change	6.5	6.4	4.7	5.3
Bituminous coal	mil.sh.tons	896	938	973.1	987.7
production	% change	.1	1.5	1.3	1.5
Crude oil	avg. daily bbl.	3279	2165	2126.0	2166.4
output	% change	.9	-2.9	-1.8	1.9
Retail sales	bil. $	1362.7	1651.3	1748.7	1860.6
p. 7	% change	4.9	7.1	5.9	6.4

Numbers in "% change" rows show percent changes over the previous year.

1986
FORECAST
DATA

Percent Change
from
July 1986
Forecast

+ .32&	GNP
0.00%	Index Indus. Prod
0.00%	Autos
- .47%	Capacity Util.
- 2.47%	Private Housing Starts

1.10 REAL GROWTH

See Table 1.11
Page 5

THE ECONOMY IS PICKING UP!

* Index of Leading Indicators up .3 in June.

* Factory shipments in June equals $193.12 billion compared to $193.07 billion in May.

* Construction spending (seasonally adjusted) for May was $374.6 billion compared to $371.6 billion in April.

* Durable orders received by manufacturers (seasonally adjusted) for June was $104.8 billion compared to $102.6 In May.

KEDI forecast of growth of selected industries in 1987 (measured by increments in the Index of Industrial Production series), 1987 averages compared to 1986.

Coal mining	+2.8
Oil & gas ext.	-4.7
Stone & earth min.	+2.9
Foods	+4.8
Textile mill prod.	+2.0
Apparel products	+2.1
Paper & products	+3.2
Printing & publ.	+2.8
Chemicals & Prod.	+2.8
Petroleum products	+2.8
Rubber & plastics	+2.6
Lumber & products	+3.2
Furniture & fixtures	+4.3
Utilities	+3.2

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod	Unemployment	Capacity util'n rate	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1984*	3489.9	121.8	7.52	80.8	1.750	10.4
1985:1*	3547.0	123.8	7.32	80.5	1.793	10.9
2*	3567.6	124.4	7.31	80.4	1.769	10.9
3*	3603.8	124.8	7.17	80.3	1.641	12.4
4*	3622.3	125.3	7.02	80.1	1.729	10.3
YEAR	3575.2	124.6	7.21	80.3	1.733	11.1
% change from '84	2.4	2.3	-4.2	-.6	-1.0	7.0
1986:1*	3655.9	124.5	7.06	79.8	1.990	10.7
2	3665.7	124.7	7.16	79.0	1.905	10.7
3	3676.1	125.1	7.01	79.2	1.831	11.0
4	3707.2	126.5	6.98	80.1	1.686	10.8
YEAR	3676.2	125.2	7.05	79.5	1.853	10.8
% change from '85	2.8	.5	-2.1	-1.0	6.9	-2.9
1987:1	3746.1	127.9	6.91	80.7	1.705	10.7
2	3778.5	130.1	6.90	81.0	1.826	11.2
3	3816.2	132.9	6.85	81.2	1.908	11.4
4	3838.2	135.6	6.81	81.7	1.766	11.8
YEAR	3794.8	131.6	6.87	81.2	1.801	11.3
% change from '86	3.2	5.1	-2.6	2.0	-2.8	4.4

*Historical data.

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1986
FORECAST
DATA

Percent Change
from
July 1986
Forecast

+ .40%	Pers. Con. Exp. Services
+ .03%	Pers. Con. Exp. Durables
- .01%	Retail Sales Durable
- 1.52%	Pers. Con. Ext. Nondurable
- 3.09%	Retail Sales Total
- 4.92%	Retail Sales Nondurable

ACCELERATED GROWTH IN RETAIL SALES FORECAST. CONSUMER DEMAND FOR RETAIL TRADE ITEMS WILL BE STRONG IN SECOND HALF OF THE YEAR.

KEDI forecast of retail sales, general merchandise, growth in the second half of 1986 will be at 1.8%, quarterly rate. This is more optimistic than Chase Econometrics' forecast of 1.0% at quarterly rate for the same period.

KEDI forecast for the second half of 1986 shows a definite, healthy upward trend. Expect most increments in household durables, especially appliances and home furnishings, higher than in the first half of 1986 sales of textile, apparel, and shoes, and moderate increases in sales of gasoline stations.

KEDI's forecast of Christmas sales (December 1986) calls for 2% increase compared to Christmas 1985.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	*--Personal Cons. Expend.-**			*------Retail Sales-------*		
INDICATOR	Durables	Nondurables	Services	Total	Durables	Nondurables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1984*	331.2	870.1	1227.0	1297.0	464.3	832.7
1985:1*	347.7	888.2	1294.9	1339.7	489.8	849.9
2*	354.0	902.3	1319.7	1375.9	511.1	864.8
3*	373.3	907.4	1346.4	1403.7	532.8	870.9
4*	362.0	922.6	1383.2	1391.6	512.5	879.1
YEAR	359.2	905.1	1336.1	1377.7	511.6	866.2
% change from '84	8.5	4.0	8.9	6.2	10.2	4.0
1986:1	360.8	929.7	1415.5	1410.8	526.4	884.4
2	374.7	926.0	1404.4	1448.9	532.0	916.9
3	389.0	937.2	1366.5	1459.2	539.4	919.8
4	396.8	947.8	1361.4	1477.1	548.0	929.1
YEAR	380.3	935.2	1387.0	1449.0	536.5	912.5
% change from '85	5.9	3.3	3.8	5.2	4.9	5.4
1987:1	403.4	960.2	1381.9	1493.9	551.2	942.7
2	412.0	968.5	1400.3	1521.9	569.1	952.8
3	420.1	980.4	1425.8	1559.6	590.0	969.6
4	427.8	1001.2	1425.8	1591.8	598.5	993.3
YEAR	415.8	977.6	1408.5	1541.8	577.2	964.6
% change from '86	9.3	4.5	1.5	6.4	7.6	5.7

1.13 REAL GNP

See Table 1.13
Page 9

THE NEW PICTURE OF THE GNP LOOKS A BIT BETTER THAN THE OLD ONE:

* LOWER TRADE DEFICIT
* HIGHER PERSONAL CONSUMPTION EXPENDITURES

The U. S. Department of Commerce recent benchmark revision of the National Income and Product Data has significantly affected the Gross National Product and components data series.

JULY BENCHMARK REVISION

	BEFORE		AFTER	
	1985 Total	1986:1	1985 Total	1986:1
GNP in constant 1982$:	3570.0	3616.9	3585.2	3655.9
Personal Consumption Expenditures:	2313.0	2352.1	2324.5	2372.7
Gross Private Domestic Investments:	649.0	684.6	647.7	684.0
Net Exports:	-108.3	-138.1	-108.2	-125.2
Federal Government Purchases:	322.6	319.1	323.6	320.4
State and Local Purchases:	393.8	399.2	397.6	404.8

For more detailed revised GNP 82 data for preceding periods, call or write KEDI.

1986
FORECAST
DATA

Percent Change
from
July 1986
Forecast

+ 8.99%	Net Exports
+ 2.78%	State Local Purch.
+ 1.10%	Pers. Cons. Expend.
+ .34%	Federal Govt. Purch.
+ .32%	GNP
- 2.26%	Gross Private Dom. Inv.

TABLE 1.13
REAL GNP

Quarterly data are seasonally adjusted at annual rates.

	*-----------Gross National Product					---------------*
INDICATOR	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1984*	3489.9	224.6	661.3	-83.6	291.7	383.5
1985:1*	3547.0	2292.3	652.0	-78.8	305.8	389.5
2*	3567.6	2311.9	638.2	-108.1	311.4	396.9
3*	3603.8	2342.0	655.6	-113.8	329.9	401.9
4*	3622.3	2351.7	643.8	-132.0	347.2	402.2
YEAR	3575.2	2324.5	647.4	-108.2	323.6	397.6
% change from '84	2.4	934.8	-2.1	29.4	10.9	3.7
1986:1*	3655.9	2372.6	684.0	-125.9	320.4	404.8
2	3665.7	2406.9	667.6	-146.3	325.1	412.4
3	3676.1	2398.8	670.3	-143.3	334.1	416.2
4	3707.2	2420.0	671.1	-139.7	335.6	420.2
YEAR	3676.2	2399.6	673.2	-138.8	328.8	413.4
% change from '85	2.8	3.2	4.0	28.3	1.6	4.0
1987:1	3746.1	2436.9	680.3	-133.2	339.0	423.1
2	3778.5	2453.9	685.1	-131.3	340.5	430.3
3	3816.2	2464.6	694.6	-125.7	342.9	439.8
4	3838.2	2467.8	699.8	-120.6	345.1	446.1
YEAR	3794.8	2447.6	690.0	-127.7	350.1	434.8
% change from '86	3.2	2.0	2.5	-8.0	6.5	5.2

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1986
FORECAST
DATA

Percent Change
from
July 1986
Forecast

- .15%	Consumer Price Index
- .40%	Federal Govt. Purch.
- .41%	Producer Price Index
- .70%	GNP
- 1.10%	Pers. Cons. Expend.
- 1.19%	State Local Purch.

OUTLOOK FOR CONSUMER PRICE INDEX REMAINS FAVORABLE!

The June rise of .5% in the CPI is a temporary deviation caused by the 2.3% rise in energy prices that month.

The price of services, Medical care in particular, will continue to push CPI upward.

PRODUCER PRICE INDEX REMAINS UNCHANGED.

This translates into no more declines, but a renewed upward trend.

The first half of 1986 saw producer prices of finished goods drop by 6.5%, intermediate goods by 8.3%, and crude goods by 20.3%, all at annual rates. It will last quite a few months until the PPI reaches the January 1986 level.

For 1987 expect sharp increases in prices of crude goods, mainly those imported ones.

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

	---Indexes--		*--------Price deflators--------*			
INDICATOR	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1984*	311.1	292.1	108.3	108.4	107.9	110.3
1985:1*	317.4	292.8	110.9	111.8	110.5	1141.1
2*	321.2	293.7	111.9	112.0	110.5	115.7
3*	323.5	292.8	112.6	112.8	110.8	117.0
4*	326.5	296.2	113.7	114.1	112.1	118.5
YEAR	322.1	293.9	112.3	112.7	111.0	373.1
% change from '84	3.6	.6	3.7	3.9	2.8	238.2
1986:1*	327.3	292.3	113.7	114.1	111.0	118.7
2	326.2	288.3	113.4	112.4	112.2	119.3
3	328.1	292.0	113.9	112.3	113.4	120.2
4	329.6	295.4	114.6	111.8	114.8	121.6
YEAR	327.8	292.0	113.9	112.6	112.8	120.0
% change from '85	1.8	-.6	1.4	-.0	1.7	-67.8
1987:1	332.4	297.9	115.1	112.7	116.0	122.9
2	335.3	302.5	116.0	113.3	116.7	124.3
3	338.9	306.9	117.1	114.7	117.8	126.1
4	341.6	309.6	118.2	115.7	119.2	128.0
YEAR	337.1	304.2	116.6	114.1	117.4	125.3
% change from '86	2.8	4.2	2.4	1.3	4.1	4.5

---

*Historical data.

**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1986 FORECAST DATA

Percent Change from July 1986 Forecast

+ 4.23%	Net Exports
+ 1.54%	State Local Purch
- .07%	Federal Govt. Purch.
- .22%	Pers. Cons. Expend.
- .41%	GNP
- 2.72%	Gross Private Dom. Inv.

DATA ON NOMINAL GNP AND COMPONENTS TAKE ON A DIFFERENT LOOK WHEN COMPARED TO U.S. DEPT OF COMMERCE DATA SERIES PUBLISHED BEFORE THE JULY 20, 1986 BENCHMARK REVISION.

JULY BENCHMARK REVISION

	BEFORE		AFTER	
	1985 Total	1986:1	1985 Total	1986:1
GNP, current $:	2589.1	4115.8	3998.1	4149.2
Personal Cons. Expenditures:	2581.9	2668.2	2600.5	2697.9
Gross Private Domestic Investment	671.4	717.2	661.1	708.3
Net Exports:	-78.5	-99.8	-78.9	-93.7
Federal Government Purchases:	355.4	357.1	354.1	355.7
State & Local Purchases:	460.0	479.0	461.3	480.9

Again, the same improved picture as on page 8 for real GNP: More Personal Consumption Expenditures and lower foreign trade deficit.

For more detailed revised data on preceding months, call or contact KEDI.

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

	-----------Gross National Product---------------					
INDICATOR	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	3765.0	2423.0	662.1	-58.7	311.3	422.2
1985:1*	3909.3	2525.0	650.6	-49.4	333.7	443.5
2*	3965.0	2563.3	667.1	-77.1	340.9	458.1
3*	4030.5	2641.8	657.4	-83.7	360.9	468.8
4*	4087.7	2634.8	669.5	-105.3	380.9	474.7
YEAR	3998.1	2619.1	661.1	-78.9	354.1	461.3
% change from '84	6.2	8.1	-.1	34.4	13.7	9.2
1986:1*	4156.8	2706.0	708.3	-93.7	355.6	480.5
2	4156.9	2705.1	691.4	-96.4	364.8	492.0
3	4187.1	2692.7	704.2	-89.0	378.9	500.3
4	4248.5	2706.0	726.5	-80.3	385.3	511.0
YEAR	4187.3	2702.5	707.6	-89.8	371.1	495.9
% change from '85	4.7	3.2	7.0	13.9	4.8	7.5
1987:1	4311.8	2745.5	729.2	-76.2	393.2	520.0
2	4383.1	2780.8	738.7	-68.7	397.4	534.9
3	4468.8	2826.3	746.2	-62.3	403.9	554.6
4	4536.8	2854.8	758.7	-59.1	411.4	571.0
YEAR	4424.7	2810.1	743.2	-66.6	401.5	545.1
% change from '86	5.7	4.0	5.0	-25.9	8.2	9.9

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1986
FORECAST
DATA

Percent Change
from
July 1986
Forecast

+	.36%	Non-Agri.
+	.35%	Total Employed
+	.25%	Civilian Labor Force
	0.00%	Agriculture
-	.01%	Population
-	.39%	Unemployment rate

LOOK FOR CONTINUED DROPS IN UNEMPLOYMENT RATE:

1986:3 7.01%

1986:4 6.98%

The number of jobs in manufacturing will stabilize in the second half of 1986. Don't expect further drops in oil drilling and related industries.

Manufacturing represents approximately 20% of the U.S. economy. If 20% stagnate, and 80% grow, the economy grows.

The 1986 and 1987 outlook remains unchanged: 9 out of 10 new jobs will be in the service producing industries.

Main increments of growth will be in:

- Business services
- Trade
- Transportation
- Restaurants
- Hotels & Motels
- Medical Services
- Legal Services
- Real estate
- Banking

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

			-------Employment-------			
INDICATOR	Population	Civil. labor force	Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1984*	237.4	113.5	105.0	3.4	101.6	7.52
1985:1*	239.8	115.2	107.1	3.4	103.4	7.32
2*	240.9	115.2	106.9	3.3	103.6	7.31
3*	242.3	115.5	107.2	3.0	104.2	7.17
4	243.7	116.2	108.0	3.1	104.9	7.02
YEAR	241.7	115.4	107.1	3.2	103.9	7.21
% change from '84	1.8	1.7	1.6	-5.9	2.3	-4.19
1986:1	244.5	117.0	108.7	3.1	105.6	7.06
2	245.9	117.7	109.3	3.1	106.2	7.16
3	247.3	118.5	110.2	3.1	107.1	7.01
4	249.8	118.8	110.5	3.1	107.4	6.98
YEAR	246.9	118.0	109.7	3.1	106.6	7.05
% change from '85	2.2	2.3	2.3	-3.1	2.5	-2.12
1987:1	250.7	119.6	111.3	3.1	108.2	6.91
2	252.6	121.0	112.7	3.1	109.6	6.90
3	254.3	122.1	113.7	3.1	110.6	6.85
4	256.5	122.8	114.4	3.1	111.3	6.81
YEAR	253.5	121.4	113.0	3.1	109.9	6.87
% change from '86	2.7	2.9	2.9	0.0	3.2	-2.62

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1986
FORECAST
DATA

Percent Change
from
July 1986
Forecast

+ 1.04%	Permits
+ .42%	Single Family Existing
+ .24%	Single Family New
+ .02%	Single Family Housing Starts
- .71%	Multiple Housing Starts
- 1.66%	Multiple Family Housing Starts

KEDI FORECAST CONTINUES TO POINT TO A WINDING DOWN IN HOUSING.

TOO MANY HOMES HAVE BEEN BUILT.

LOWER MORTGAGE RATES DO NOT HAVE THE POSITIVE IMPACT AS EXPECTED BY SOME ECONOMISTS.

Declining housing trend is clearly seen from the monthly data:

In millions

Housing Starts Total	Single Family	Multi Family	Permits Issued
April: 1907	1256	753	1883
May: 1825	1247	619	1788
June: 1784	1223	599	1745

The trend is downward. The April-June period is normally up.

What will go up is PRICES!

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home ship-ments mil.	Permits author-ized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1984*	1.084	.665	.295	1.682	97.0	87.0
1985:1*	1.121	.674	.277	1.709	98.5	87.3
2*	1.076	.693	.281	1.731	100.8	90.6
3*	1.029	.641	.285	1.762	100.4	92.4
4*	1.060	.680	.291	1.736	104.5	91.1
YEAR	1.071	.672	.283	1.735	101.0	90.3
% change from '84	-1.2	1.1	-3.9	3.1	4.2	3.9
1986:1*	1.257	.733	.274	1.839	103.4	91.8
2	1.242	.663	.280	1.805	104.7	94.7
3	1.178	.653	.287	1.498	105.9	96.8
4	1.064	.622	.279	1.680	109.8	97.5
YEAR	1.185	.668	.280	1.706	106.0	95.2
% change from '84	10.6	-.6	-1.2	-1.7	4.8	5.4
1987:1	1.062	.643	.280	1.602	109.9	100.1
2	1.141	.685	.296	1.804	111.3	101.2
3	1.256	.714	.309	1.965	112.4	103.2
4	1.114	.652	.296	1.874	114.6	105.8
YEAR	1.143	.673	.295	1.811	112.0	102.6
% change from '85	-3.5	.9	5.4	6.2	5.8	7.7

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1986 FORECAST DATA

Percent Change from July 1986 Forecast

+ .55%	Total Light Truck Sales
0.00%	Total Car Sales
0.00%	Domestic Car Sales
0.00%	Imported Car Sales
0.00%	Dealer Inven.
- .64%	Shipments

RECENT DEVELOPMENTS IN CAR SALES CONFIRM KEDI PREDICTION THAT 1986 WILL NOT BE AS GOOD AS 1985.

Mid-July sales of U.S. cars dropped by 7.8% compared to year-earlier period.

Analysts concede that incentives are increasingly loosing their bang!

Automakers' production plans are too ambitious for the balance of 1986.

Mid-July sales of U. S. cars amounted to the 7.3 million annual rate. Sales have to go up to the 8.0 million level for automakers not to cut back on production. Such target is highly elusive, however, since incentives of lower interest and price rebates are loosing their impact.

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1984*	10.4	8.0	2.4	1.4	8.0	3.3
1985:1*	10.9	8.4	2.4	1.6	8.3	3.7
2*	10.9	8.2	2.7	1.6	8.0	3.6
3*	12.4	9.5	2.9	1.2	9.3	3.6
4*	10.3	7.4	3.3	1.3	7.9	3.9
YEAR	11.1	8.4	2.8	1.3	8.4	3.7
% change from '84	7.0	4.7	17.7	-7.1	4.7	12.1
1986:1	10.7	7.9	2.8	1.8	7.7	3.4
2	10.7	7.7	3.0	1.9	7.8	3.6
3	11.0	7.8	3.2	1.7	7.8	3.7
4	10.8	7.8	3.0	1.8	7.7	3.9
YEAR	10.8	7.8	3.0	1.8	7.8	3.6
% change from '85	-2.9	-9.1	6.2	38.5	-7.5	-1.4
1987:1	10.7	7.7	3.0	1.8	7.8	3.7
2	11.2	8.0	3.2	1.7	8.0	3.9
3	11.4	8.1	3.3	1.7	8.2	4.2
4	11.8	8.5	3.3	1.7	8.5	4.3
YEAR	11.3	8.1	3.2	1.6	8.1	4.0
% change from '86	4.4	-2.3	6.7	-11.1	4.8	10.3

---

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

THE ADMINISTRATION HAS RECENTLY RELEASED DATA THAT REFLECTS A FEDERAL BUDGET DEFICIT OF $230 BILLION FOR THE CURRENT FISCAL YEAR 1986, AND FORECASTS A DEFICIT OF $171.5 BILLION FOR FISCAL YEAR 1987.

FOR THE CURRENT FISCAL YEAR 1986 THIS REPRESENTS AN INCREASE OF $27 BILLION OVER THE ADMINISTRATION FORECAST IN FEBRUARY. This represents no major problem. What is more important is the forecasted decrease from FY 86 to FY 87.

KEDI has predicted that the Gramm-Rudman target will not be achieved ($144 billion deficit for FY 87). This is now confirmed by the Administration's forecast of $171.5 billion.

Traditionally wrong, the Congressional Budget Office predicts the FY 87 federal budget deficit at $184. KEDI believes this is too high!

1986
FORECAST
DATA

Percent Change
from
July 1986
Forecast

+14.82%	Corp Profit Tax Accrued
+ 9.92%	Surplus/ Deficit
+ 7.15%	State Surplus/ Deficit
- .25%	State Income Tax
- 2.10%	Federal Income Tax
- 4.10%	State Local Corp. Tax Accrued

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----FEDERAL-----		-----*	*---STATE AND LOCAL---		---*
	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	311.3	74.4	-172.9	130.5	19.2	64.4
1985:1*	363.9	65.9	-165.6	137.8	17.5	63.2
2*	321.8	65.0	-209.1	141.1	17.3	57.3
3*	355.4	68.9	-201.3	142.9	18.5	56.9
4*	362.1	71.1	-224.2	146.3	19.2	59.4
YEAR	350.8	67.7	-200.1	142.0	18.1	59.2
% change from '84	12.7	-9.0	15.7	8.8	-5.6	-8.1
1986:1*	350.3	71.2	-201.6	147.2	17.5	70.0
2	351.5	82.4	-228.3	149.3	18.2	71.1
3	362.4	64.7	-231.2	154.7	19.1	72.1
4	386.3	86.2	-202.4	157.7	20.0	73.1
YEAR	362.6	76.1	-215.9	152.2	18.7	71.6
% change from '85	3.4	12.4	7.9	7.2	3.2	20.9
1987:1	396.4	89.7	-184.4	161.8	20.4	75.4
2	404.5	92.5	-180.5	162.9	21.5	77.1
3	415.6	98.5	-174.1	165.0	22.0	78.5
4	423.1	101.3	-168.5	167.9	22.5	79.8
YEAR	409.9	95.5	-176.9	164.4	21.6	77.7
% change from '86	13.0	25.5	-18.1	8.0	15.5	8.6

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1986
FORECAST
DATA

Percent Change
from
July 1986
Forecast

+19.71%	Personal Savings
+ 1.18%	Personal Disp. Income
+ .77%	Personal Income
+ .15%	Average Weekly Earnings
- .14%	Comp. of Empl.
- 4.40%	Corp. After Tax Profit

LASTEST DATA ON PERSONAL INCOME AND ITS COMPONENTS CONFIRM THE HEALTHY TREND KEDI HAS BEEN FORECASTING FOR SOME TIME.

EXCLUDING THE EFFECTS OF THE AT&T STRIKE AND SUBSIDY PAYMENTS TO FARMERS, PERSONAL INCOME ROSE A SOLID .4% IN JUNE AFTER A RISE OF .2% IN MAY.

THERE IS A MIXED BAG OF CORPORATE PROFITS IN THE SECOND HALF OF 1986 & 1987:

GOOD for aerospace, automobiles, building materials, chemicals, drugs, pharmaceuticals, food products, retail and plastics.

MODERATE INCREASES in apparel, soft drinks, financial services, heavy construction, media and entertainment, rubber, trucking, tobacco, utilities, paper and paperboard, printing and publishing.

LEVELING OFF for banks, electrical equipment, health care, home builders, farm equipment, office equipment, railroads and coal mining.

PROBLEMS for airlines, nonferrous metals, oil field equipment, petroleum and steel.

TABLE 1.60
INCOME

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1984*	3110.2	2670.6	2214.7	140.3	168.7	368.5
1985:1*	3253.1	2755.4	2316.3	126.1	144.1	374.6
2*	3298.7	2842.3	2352.1	126.7	183.6	378.5
3*	3323.2	2832.0	2380.9	133.4	119.6	384.6
4*	3382.9	2882.2	2423.6	139.4	125.8	390.3
YEAR	3314.5	2828.0	2368.2	131.4	143.3	382.0
% change from '84	6.6	5.9	6.9	-6.3	-15.1	3.7
1986:1*	3427.7	2930.2	2461.5	135.2	145.6	391.2
2	3481.8	2981.0	2478.8	140.1	155.7	393.7
3	3508.3	2991.2	2504.2	142.5	158.3	394.1
4	3557.5	3013.5	2567.9	145.1	160.5	402.5
YEAR	3493.8	2979.0	2503.1	140.7	155.0	395.4
% change from '85	5.4	5.3	5.7	7.1	8.2	3.5
1987:1	3640.4	3082.2	2593.2	149.3	164.2	404.2
2	3696.8	3129.4	2631.4	155.6	166.1	411.4
3	3734.9	3154.3	2665.2	160.4	169.3	415.0
4	3801.5	3210.5	2701.3	163.2	173.1	420.3
YEAR	3718.4	3144.1	2647.8	157.1	168.2	412.7
% change from '86	6.4	5.5	5.8	11.7	8.5	4.4

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1986
FORECAST
DATA

Percent Change
from
July 1986
Forecast

+ 1.25%	Currency & Demand Deposits
+ .19%	Time Deposits
+ .10%	Comm. & Industrial Loans at Banks
- .09%	Consumer Install. Credit
- .10%	Mortg. at S&L Assns.
- .63%	Large Denom. Time Deposits

THE MAJOR CHANGE IN THE MONEY AND CREDIT AUGUST FORECAST COMPARED TO JULY IS IN M1. Apparently, the Fed continues with an easy money policy and will continue throughout the rest of this year and 1987.

KEDI AGREES WITH THE ECONOMISTS WHO FAVOR ABANDONING M1 AS ONE OF THE KEY INDICATORS OF THE FUTURE DEVELOPMENT OF THE ECONOMY.

It is not clear at all whether or not the M1 represents the actual money supply. The Fed's other aggregates, M2 and M3, or some of their components may serve, as they are not serving, as a means of payments as well. SO, WHAT IS ACTUALLY THE MONEY SUPPLY IN THE U.S.?

The last two years of Fed's EXCESSIVE M1 creation did not have any impact on inflation. M1 had been skyrocketing while inflation declined.

The M1 of a few years ago is a different M1 NOW due to new types of accounts, deregulation of banking, and other changes in the banking system.

So, KEDI does not believe in M1 as an oracle as some still do.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDI-CATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	545.0	2277.4	453.6	469.0	416.8	555.3
1985:1*	568.1	2417.0	470.5	481.2	421.0	559.3
2*	583.0	2455.1	494.3	484.3	422.7	569.3
3*	604.1	2513.5	516.4	487.2	425.6	575.6
4*	619.2	2550.5	535.1	493.9	436.5	586.1
YEAR	593.6	2484.0	535.1	493.9	436.5	586.1
% change from '84	8.9	9.1	18.0	5.3	4.7	5.5
1986:1	629.8	2581.3	551.5	502.1	450.4	577.0
2	657.9	2646.8	564.3	507.9	449.8	588.3
3	663.8	2732.8	572.1	510.3	454.2	599.1
4	670.5	2789.5	579.1	516.8	457.6	615.8
YEAR	655.5	2687.6	579.1	516.8	457.6	615.8
% change from '85	10.4	8.2	8.2	4.6	4.8	5.1
1987:1	679.1	2860.2	584.8	525.0	462.1	621.2
2	686.3	2921.8	592.8	530.2	468.3	628.2
3	692.1	2996.3	599.1	537.8	473.4	639.3
4	698.7	3053.7	609.4	544.1	480.1	641.2
YEAR	669.3	2958.0	609.4	544.1	480.1	641.2
% change from '86	4.4	10.1	5.2	5.3	4.9	4.1

*Historical data. n.s.a: not seasonally adusted.
s.a.: seasonally adjusted at annual rates.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1986
FORECAST
DATA

Percent Change
from
July 1986
Forecast

+ .88%	S & P's 500 Avg.
+ .30%	20 yr. Govt. Bonds Yield
+ .18%	Prime Rate
+ .07%	Conv. Mortg. Rate
0.00%	Treas. Bills 3 mo. Yield
0.00%	Aaa Corp. Bond Rate

WHEN MR. VOLCKER SPEAKS, REPORTERS LISTEN. SO HE, "says as little as possible," (WJ, 7/24/86). However, what he said in testimony in Congress on July 23 is significant. Mr. Volcker indicated further interest rate reductions are ahead. While he indicated that the reductions will not be immediate, KEDI believes there will be no drastic cuts. The Fed will not rush pell-mell to a 5% discount rate. It has been confirmed what KEDI has been advocating for two years that interest rates would head down in 1986.

The KEDI forecast of interest rates remains unchanged: further small declines for the balance of 1986 stabilizing in 1987.

EXPECT major declines in interest rates on credit cards with other interest rates decreasing not as drastically. KEDI's forecast on credit card interest rates is for the present 18% to drop by year end to 14% and continuing declining to 12% by the end of 1987.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P's 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1984*	9.52	12.04	13.84	12.71	12.48	160.50
1985:1*	8.18	10.54	13.28	12.06	11.41	177.30
2*	7.52	10.20	12.76	11.63	11.15	184.80
3*	7.11	9.50	12.58	11.03	10.74	188.30
4*	7.13	9.50	12.11	10.58	10.22	197.08
YEAR	7.48	9.93	12.68	11.32	10.88	186.87
% change from '84	-21.4	-17.5	-8.4	-10.9	-12.8	16.4
1986:1*	7.01	9.41	11.13	9.74	9.01	221.72
2	6.30	8.52	10.22	9.16	7.65	240.30
3	6.07	8.04	9.74	9.04	7.00	245.80
4	6.02	7.93	9.70	9.02	6.91	249.81
YEAR	6.35	8.47	10.20	9.24	7.64	239.41
% change from '85	-15.2	-14.7	-19.6	-18.4	-29.8	28.1
1987:1	5.92	7.65	9.77	8.89	6.74	248.70
2	5.80	7.28	9.75	8.74	6.36	251.50
3	5.73	7.10	9.70	9.01	6.26	248.60
4	5.85	7.21	9.82	9.09	7.21	252.80
YEAR	5.83	7.31	9.76	8.93	6.64	250.40
% change from '86	-8.3	-13.7	-4.3	-3.3	-13.1	4.6

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the 20 year Treasury Bonds yield has been selected for comparison. The actual figure appears in the Federal Reserve Bulletin (Board of Governors of the Federal Reserve System, Washington, D.C.), July 1986 issue, page A24. Forecast data are in Business Forecasts 1985 (Federal Reserve Bank of Richmond, Virginia, February 1985). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
20 year Treasury Bond yield
Actual figure: 10.97

Forecaster (and page in source)	Date of Forecast	Forecast	Accuracy %
Ashland Oil, Inc., pg. 14	11/84	12.25*	+11.6
First Interstate Bank of Calif., p.16	11/19/84	11.25*	+ 2.5
Fidelity Band, p. 25	12/20/84	11.51	+ 4.9
Kent Economic and Development Institute, p. 32	1/1/85	11.90	+ 8.4
Standard & Poor's Corp., p. 35	1/10/85	10.70	- 2.5

Care should be exercised when interpreting the data. Some forecasters may have different definitions of the 20 year Treasury Bond yield.

* Calculated as average of four quarterly data.

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	SCB, Blue pages
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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KEDI ECONOMIC SURVEY

September 1, 1986

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SOURCES:

U.S.Department of Commerce revised estimates of 1986:2, National Income and Product data, August 20, 1986.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, August 1986.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Slowly--but surely--economic growth continues with orders for durable goods and nondefense capital goods gains in July.

Prices

Do not expect any significant upward price movements for the rest of 1986 and in 1987.

Employment & Labor

Expect further small declines in the unemployment rate in coming months, however, the 6% rate is still far from sight.

Housing

Forecasters are now revising their predictions downward following KEDI's forecast that housing will go down.

Automobiles

Production has been cut for 1986:3 by 3.4% compared to 1985:3, with further cuts required for 1986:4 as well.

Budgets

It is anticipated that the federal budger for fiscal year 1987 will meet the Gramm-Rudman limits.

Income

Personal income rose in July by a solid .5% after the .1% rise in June. This is a good sign!

Money & Credit

Easy money and credit policity of the Federal Reserve are predicted for the test of this year and in 1987.

Interest Rates, Yields & Securities Prices

KEDI forecast calls for further declines in interest rates throughout the rest of this year.

0.02 ASSUMPTIONS

	Last Update
1. In 1986, the weighted price of oil will stabilize; in 1987 it will increase slightly and continue at that level in the 1988-1990 period.	April 1986
2. A longer-lasting relaxation in monetary and credit policies will start in the second quarter of 1986, and will continue into 1987.	August 1986
3. In 1987 and 1988 good crops in all main producing countries are anticipated.	September 1986
4. Foreign trade with China will expand in 1986 and following years.	Jan 1984
5. Average rates of growth in 1984-1990 in major industrial countries are anticipated: West Germany 3.1%; Italy 2.4%; Great Britain 2.5%; France 2,6%; Japan 2.9%.	Jan 1985
6. No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

- Table 0.00 on page 3 shows forecast data of selected indicators of the July 1986 KEDI forecast.
- In 1986 moderate growth is expected.
- An upward trend in 1987 is anticipated. It will continue throughout 1988 - 1990.
- Forecast data for 1986-1990 do not point to recession or major downturn.
- Financial outlook is optimistic.
- Federal budget deficits will keep declining in 1986 and the following years.
- This year's export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

Indicator	Unit	1985	1988	1989	1990
Gross national	bil. 82$	3575.2	3895.8	4032.1	4137.0
product, p. 5	% change	2.4	3.4	3.5	2.6
Index of indust.	1977=100	124.6	136.1	141.5	146.7
prod., p. 5	% change	2.3	4.8	4.0	3.7
Capacity	%	80.3	81.2	80.4	79.6
utiliz., p. 5	% change	-.6	.8	-1.0	-.9
Unemployment	%	7.2	6.6	6.5	6.6
rate, p. 5	% change	-4.2	-3.1	1.0	.8
Private housing	mil.units	1.7	1.9	1.8	1.8
starts, p. 5	% change	-1.0	6.4	-3.1	-2.1
Car sales,	mil.units	11.1	12.3	11.9	11.8
p. 5	% change	7.0	9.7	-2.9	-.6
Implicit GNP	1982=100	112.3	121.6	126.4	131.8
price def., p. 9	% change	3.7	3.1	4.0	4.2
Consumer Price	1967=100	322.1	348.1	361.0	375.1
Index, p. 9	% change	3.6	3.3	3.7	3.9
Prod.Price Index	1967=100	293.9	317.2	332.4	342.4
(fin.goods),p.9	% change	.6	4.3	4.8	3.0
Federal Deficit	bil. $	-200.1	-160.6	-137.6	-116.7
p. 19	% change	15.1	-10.1	-14.3	-15.2
Personal Income	bil. $	3314.5	3977.4	4275.7	4583.6
p. 21	% change	6.6	7.3	7.5	7.2
Prime Rate	%	9.9	7.0	7.7	8.4
p. 25	% change	-17.5	1.7	9.8	9.1
Mortgage Rate	%	12.7	8.9	9.3	8.7
p. 25	% change	-8.4	-3.0	3.6	-5.9
Currency+demand	bil. $	593.6	714.8	756.3	793.3
deposits, p. 23	% change	8.9	6.8	5.8	4.9
Commercial+ind.	bil. $	493.9	568.1	584.6	596.3
loans, p. 23	% change	5.3	4.2	2.9	2.0
Raw steel	mil.sh.tons	88.1	910.0	903.6	905.4
production	% change	-4.8	1.4	-.7	.2
Electric power	mil.kw-hr	2576	3120	3266.6	3439.8
production	% change	6.5	6.3	4.7	5.3
Bituminous coal	mil.sh.tons	896	938	973.1	984.8
production	% change	.1	1.3	1.1	1.2
Crude oil	avg. daily bbl.	3279	2160	2121.1	2161.4
output	% change	.9	-2.7	-1.8	1.9
Retail sales	bil. $	1377.7	1648.7	1746.0	1857.7
p. 7	% change	6.2	7.0	5.9	6.4

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH

See Table 1.11
Page 5

1986
FORECAST
DATA

Percent Change
from
August 1986
Forecast

- .12&	GNP
- .44%	Index Indus. Prod
- .44%	Capacity Util.
- .69%	Autos
- 1.28%	Unemployment
- 2.93%	Private Housing Starts

SLOWLY--BUT SURELY--ECONOMIC GROWTH CONTINUES!

* Durable goods orders (in bil. $):
  June $102.73
  July $107.17

* Orders for nondefense capital goods is a very important indicator:
  June + 1.1%
  July + 3.8%

* Building awards in July were up 1% over June.

* Index of Leading Indicators:
  June 177.4 points
  July 179.4 points

* Index of Industrial Production for July decreased only .1% after a .3% decline in June.

* More importantly, the manufacturing component has NOT declined but REMAINED STABLE. This points to the beginning of a REBOUND and supports KEDI's position that the second half of 1986 will be better than the first half.

NOTE: Federal Reserve has revised, AGAIN, the Index of Industrial Production. New IIP data will appear in the September 15, 1986 release of the IIP. For more details, contact KEDI.

TABLE 1.11
SELECTED INDICATORS I.

Quarterly data are seasonally adjusted at annual rates.

INDICATOR Unit	GNP $82 bil.	Index of ind. prod 1977=100	Unem-ploy ment %	Capacity util'n rate %	Private housing starts mil.	Auto sales mil.
Year & Qtr.						
1984*	3489.9	121.8	7.52	80.8	1.750	10.4
1985:1*	3547.0	123.8	7.32	80.5	1.793	10.9
2*	3567.6	124.4	7.31	80.4	1.769	10.9
3*	3603.8	124.8	7.17	80.3	1.641	12.4
4*	3622.3	125.3	7.02	80.1	1.729	10.3
YEAR	3575.2	124.6	7.21	80.3	1.733	11.1
% change from '84	2.4	2.3	-4.2	-.6	-1.0	7.0
1986:1*	3655.9	124.5	7.06	79.8	1.990	10.7
2	3661.5	123.7	7.16	79.0	1.905	10.7
3	3672.1	124.6	6.84	78.8	1.801	10.8
4	3697.4	125.8	6.78	79.0	1.681	10.7
YEAR	3671.7	124.7	6.96	79.2	1.844	10.7
% change from '85	2.7	.1	-3.4	-1.5	6.4	-3.6
1987:1	3726.8	127.0	6.81	79.4	1.648	10.7
2	3749.5	127.9	6.84	80.1	1.820	11.0
3	3786.2	129.6	6.76	81.0	1.901	11.3
4	3828.2	134.8	6.74	81.6	1.762	11.7
YEAR	3772.7	129.8	6.79	80.5	1.783	11.2
% change from '86	2.7	4.2	-2.5	1.7	-3.3	4.2

*Historical data.

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1986
FORECAST
DATA

Percent Change
from
August 1986
Forecast

+ 2.45%	Pers. Con. Exp. Services
+ .12%	Retail Sales Nondurable
+ .09%	Pers. Con. Exp. Nondurable
+ .03%	Retail Sales Total
+ .03%	Pers. Con. Exp. Durables
- .12%	Retail Sales Durables

CONSUMER SPENDING WILL CONTINUE AS THE DRIVING FORCE FOR GROWTH IN THE SECOND HALF OF 1986 AND IN 1987.

IN THE SECOND QUARTER OF 1986, CONSUMERS INCREASED SPENDING BY 5.9%, COMPARED TO A 3.6% INCREASE IN THE FIRST QUARTER OF THIS YEAR.

THIS FAVORABLE TREND WILL CONTINUE BECAUSE:

* Personal disposable income will continue its strong growth for the balance of this year and 1987.

* Interest rates on consumer durables will continue declining.

* There is no foreseeable rapid increases in prices of consumer goods.

* Favorable employment outlook will bring about more jobs with new spending power.

Forecast of retail sales is optimistic through the rest of this year: Car sales will remain STRONG, along with building materials, furniture and appliances; apparel and shoes will not be as strong but will continue upward trend, while gasoline stations level off with only slight increases.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

	*--Personal Cons. Expend.-		-**------Retail Sales-------*			
INDICATOR	Durables	Nondurables	Services	Total	Durables	Nondurables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr. 1984*	331.2	870.1	1227.0	1297.0	464.3	832.7
1985:1*	347.7	888.2	1294.9	1339.7	489.8	849.9
2*	354.0	902.3	1319.7	1375.9	511.1	864.8
3*	373.3	907.4	1346.4	1403.7	532.8	870.9
4*	362.0	922.6	1383.2	1391.6	512.5	879.1
YEAR	359.2	905.1	1336.1	1377.7	511.6	866.2
% change from '84	8.5	4.0	8.9	6.2	10.2	4.0
1986:1	360.8	929.7	1415.5	1410.8	526.4	884.4
2	375.7	929.1	1432.4	1449.2	531.5	917.7
3	389.2	937.5	1416.6	1459.8	538.6	921.2
4	396.0	947.9	1419.4	1478.0	547.0	931.0
YEAR	380.4	936.0	1421.0	1449.5	535.9	913.6
% change from '85	5.9	3.4	6.4	5.2	4.7	5.5
1987:1	403.0	960.1	1431.1	1493.4	550.1	943.3
2	410.1	968.1	1437.0	1521.0	567.3	953.7
3	417.2	979.2	1471.4	1558.8	589.2	969.6
4	421.3	1000.1	1502.8	1590.2	595.4	994.8
YEAR	412.9	976.9	1460.6	1540.8	575.5	965.4
% change from '86	8.5	4.4	2.8	6.3	7.4	5.7

1.13 REAL GNP

See Table 1.13
Page 9

1986
FORECAST
DATA

Percent Change!
from
August 1986
Forecast

+ 2.36%	Net Exports
+ .46%	Federal Govt. Purch.
+ .06%	State Local Purch.
+ .02%	Pers. Cons. Expend.
- .12%	GNP
- .52%	Gross Private Dom. Inv.

REVISED GNP DATA FOR 1986:2 SHOWS GNP GROWTH OF ONLY .2% RATE COMPARED TO 3.8% RATE IN 1986:1. AT FIRST GLANCE THAT LOOKS BAD WHEN, IN FACT, IT IS NOT THAT BAD:

* In 1986:2, consumer spending grew by a ROBUST $37.7 billion, compared to $21 billion growth in 1986:1, showing a strong growth in consumer demand.

* Business inventories increased by $11.6 billion in 1986:2 compared to $39.9 billion in 1986:1 meaning a slowdown in growth of the GNP has been largely caused by a small increase in inventories. Indications point to a more favorable trend in 1986:3. Expect a $28 billion increase in inventories that will push the GNP figure up significantly.

* Nonresidential structures declined in 1986:2 by $17 billion compared to 1986:1, mainly due to a drop in commerical office building. This will not repeat in 1986:3.

LOOK FOR A RESUMPTION OF THE NORMAL TREND IN INVENTORIES BUILDUP AND NONRESIDENTIAL CONSTRUCTION WITH STRONG CONSUMER DEMAND. THE REAL GNP IN 1986:3 WILL RETURN TO A MORE NORMAL TREND: EXPECT 3.2% GROWTH RATE IN 1986:3.

TABLE 1.13
REAL GNP

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Gross National Product					
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1984*	3489.9	224.6	661.3	-83.6	291.7	383.5
1985:1*	3547.0	2292.3	652.0	-78.8	305.8	389.5
2*	3567.6	2311.9	638.2	-108.1	311.4	396.9
3*	3603.8	2342.0	655.6	-113.8	329.9	401.9
4*	3622.3	2351.7	643.8	-132.0	347.2	402.2
YEAR	3575.2	2324.5	647.4	-108.2	323.6	397.6
% change from '84	2.4	934.8	-2.1	29.4	10.9	3.7
1986:1*	3655.9	2372.6	684.0	-125.9	320.4	404.8
2	3661.5	2410.3	659.2	-150.5	329.5	413.0
3	3672.1	2404.0	665.3	-148.2	334.6	416.4
4	3697.4	2413.7	670.2	-143.7	336.8	420.4
YEAR	3671.7	2400.2	669.7	-142.1	330.3	413.6
% change from '85	2.7	3.3	3.4	31.3	2.1	4.0
1987:1	3726.8	2430.0	675.4	-140.3	338.7	423.0
2	3749.5	2435.8	680.7	-137.2	340.1	430.1
3	3786.2	2449.2	690.3	-135.8	342.8	439.7
4	3828.2	2471.0	696.4	-130.4	345.0	446.2
YEAR	3772.7	2438.1	685.7	-135.9	350.1	434.8
% change from '86	2.7	1.6	2.4	-4.3	6.0	5.1

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

CONSUMER PRICES: Do not expect any significant price movements up for the rest of 1986 and in 1987.

- * In 1986, CPI will go up by 1.8%.
- * In 1987, CPI will go up by 2.7%.
- * The price of services will be the upward driving force.

PRODUCER PRICES: In 1987, a different trend will develop for the PPI, compared to the CPI with significant increases in prices of crude materials. Indicators are already here with the PPI for crude materials up by 1.2% in July, compared to June. These increases will trickle through the prices of semi-finished and finished goods. This effect will push the overall PPI up be 5% in 1987 over 1986.

PPI FOR FINISHED GOODS:

1984	292.2
1985	293.9
1986	291.6
1987	304.1

1986
FORECAST
DATA

Percent Change
from
August 1986
Forecast

+ 1.29%	Pers. Cons. Expend.
+ .57%	GNP
+ .09%	Consumer Price Index
- .13%	State Local Purch.
- .15%	Producer Price Index
- .55%	Federal Govt. Purch.

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

	---Indexes--		*-------Price deflators--------*			
INDICATOR	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1984*	311.1	292.1	108.3	108.4	107.9	110.3
1985:1*	317.4	292.8	110.9	111.8	110.5	114.1
2*	321.2	293.7	111.9	112.0	110.5	115.7
3*	323.5	292.8	112.6	112.8	110.8	117.0
4*	326.5	296.2	113.7	114.1	112.1	118.5
YEAR	322.1	293.9	112.3	112.7	111.0	116.3
% change from '84	3.6	.6	3.7	3.9	2.8	5.5
1986:1*	327.3	292.3	113.7	114.1	111.0	118.7
2	326.8	288.3	114.2	113.6	111.4	119.3
3	328.4	291.4	114.7	114.1	112.3	120.1
4	329.9	294.2	115.6	114.5	114.0	121.3
YEAR	328.1	291.6	114.5	114.1	112.2	119.8
% change from '85	1.8	-.8	2.0	1.2	1.1	3.0
1987:1	332.3	297.6	116.3	115.0	115.5	122.2
2	335.3	302.4	117.2	115.6	116.7	124.0
3	338.9	306.9	118.5	117.1	117.8	125.7
4	341.6	309.6	119.7	118.3	119.2	127.7
YEAR	337.0	304.1	117.9	116.5	117.3	124.9
% change from '86	2.7	4.3	2.9	2.1	4.6	4.2

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*Historical data.

**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1986
FORECAST
DATA

Percent Change
from
August 1986
Forecast

+ 5.99%	Net Exports
+ 1.29%	Pers. Cons. Expend.
+ .45%	GNP
- .02%	State Local Purch
- .13%	Federal Govt. Purch.
- 1.45%	Gross Private Dom. Inv.

REVISED 1986:2 DATA ON NOMINAL GNP AND COMPONENTS INDICATES THAT THE SECOND QUARTER SLOW DOWN IS TEMPORARY AND IN 1986:3, THE GROWTH WILL BE RESUMED CAUSED BY:

* A smaller deficit in foreign trade:
  1986:1 $93.7 billion
  1986:2 $100.2 billion
  Actually, the 1986:2 figure is still LOWER than the peak of $105.3 billion in 1985:4. The 1986:2 increase in the deficit was due to a drop in EXPORTS ($7 billion) while imports remained stable. IMPORTS did not increase and WILL NOT go up significantly in coming quarters. EXPORTS dropped temporarily, but will resume the upward trend. Consequently, there will be no more slowing down of the GNP because of the foreign trade deficit.

* Consumer spending increased significantly and will continue increasing.

* Inventories will resume normal growth leaving 1986:2 as a temporary aberation only.

* Consumption of nondurable goods stagnated. This is temporary and will resume upwardly.

TABLE 1.22
NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

	-----------Gross National Product---------------					
INDICATOR	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	3765.0	2423.0	662.1	-58.7	311.3	422.2
1985:1*	3909.3	2525.0	650.6	-49.4	333.7	443.5
2*	3965.0	2563.3	667.1	-77.1	340.9	458.1
3*	4030.5	2641.8	657.4	-83.7	360.9	468.8
4*	4087.7	2634.8	669.5	-105.3	380.9	474.7
YEAR	3998.1	2619.1	661.1	-78.9	354.1	461.3
% change from '84	6.2	8.1	-.1	34.4	13.7	9.2
1986:1*	4156.8	2706.0	708.3	-93.7	355.6	480.5
2	4181.4	2737.2	684.7	-100.2	367.1	492.7
3	4211.9	2743.3	690.3	-97.6	375.8	500.1
4	4274.2	2763.3	706.2	-89.2	384.0	509.9
YEAR	4206.1	2737.5	697.4	-95.2	370.6	495.8
% change from '85	5.2	4.5	5.5	20.7	4.7	7.5
1987:1	4334.3	2794.2	719.4	-87.4	391.2	516.9
2	4394.4	2815.2	728.5	-79.5	396.9	533.3
3	4486.6	2867.8	735.4	-73.1	403.8	552.7
4	4582.4	2924.2	747.2	-70.1	411.2	569.8
YEAR	4448.9	2840.2	732.6	-77.5	400.8	543.2
% change from '86	5.8	3.8	5.1	-18.5	8.1	9.6

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1986
FORECAST
DATA

Percent Change
from
August 1986
Forecast

+ .23%	Total Employed
+ .23%	Non-Agri.
+ .15%	Civilian Labor Force
0.00%	Agriculture
- .01%	Population
- 1.28%	Unemployment rate

EXPECT FURTHER SMALL DECLINES IN THE UNEMPLOYMENT RATE IN COMING MONTHS, HOWEVER, THE 6% UNEMPLOYMENT RATE IS STILL FAR FROM SIGHT. KEDI'S FORECAST FOR THE YEAR 1990 PUTS THE UNEMPLOYMENT RATE CLOSE TO THAT 6% LEVEL.

MANUFACTURING
% change in employment in 1987
compared to 1986

Foods	+ .3%
Textile mill prod.	+ .2%
Apparel products	- .1%
Paper & products	+ .3%
Printing & publish.	+ .2%
Chemicals & prod.	+ .3%
Petroleum products	- 3.4%
Rubber & plastics	+ .1%
Lumber & products	+ .1%
Clay, glass, stone	+ .2%
Primary metals	- .7%
Fabricated metal prod.	.0%
Nonelectrical mach.	+ .1%
Electrical machinery	+ .1%

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------*			Unemployment rate
			Total	Agricult.	Non-agric.	
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1984*	237.4	113.5	105.0	3.4	101.6	7.52
1985:1*	239.8	115.2	107.1	3.4	103.4	7.32
2*	240.9	115.2	106.9	3.3	103.6	7.31
3*	242.3	115.5	107.2	3.0	104.2	7.17
4	243.7	116.2	108.0	3.1	104.9	7.02
YEAR	241.7	115.4	107.1	3.2	103.9	7.21
% change from '84	1.8	1.7	1.6	-5.9	2.3	-4.19
1986:1	244.5	117.0	108.7	3.1	105.6	7.06
2	245.9	117.7	109.3	3.1	106.2	7.16
3	247.3	118.9	110.8	3.1	107.7	6.84
4	249.8	119.1	111.0	3.1	107.9	6.78
YEAR	246.9	118.2	110.0	3.1	106.9	6.96
% change from '85	2.2	2.4	2.5	-3.1	2.8	-3.40
1987:1	250.7	120.9	112.7	3.1	109.6	6.81
2	252.6	121.7	113.4	3.1	110.3	6.84
3	254.3	122.9	114.6	3.1	111.5	6.76
4	256.5	123.8	115.5	3.1	112.4	6.74
YEAR	253.5	122.3	114.0	3.1	110.9	6.79
% change from '86	2.7	3.5	3.6	0.0	3.8	-2.48

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1986 FORECAST DATA

Percent Change from August 1986 Forecast

+ 3.49%	Permits
0.00%	Single Family New
- .05%	Single Family Existing
- .19%	Multiple Family Housing Starts
- .27%	Multiple Housing Starts
- .63%	Single Family Housing Starts

ACTUAL DATA ON HOUSING STARTS CONFIRM KEDI'S FORECAST:

* - .1% June decline from May

* - 1.8% July decline from June

* In July there were 1.852 million units started compared to 1.181 million units in June.

* The same trend continued in HOUSING PERMITS issued with July down 2.1% from June.

FORECASTERS ARE NOW REVISING THEIR PREDICTIONS DOWNWARD FOLLOWING KEDI'S FORECAST FOR MANY MONTHS THAT HOUSING WILL GO DOWN. Much of the consumer demand was satisfied in the spring and the pace of housing will be slowing even further. Expect main declines in apartments because of:

* overbuilding

* expected elimination of many tax shelters

In 1987 housing will be a SUPPORTING force for the economy, NOT A STIMULUS as it has been this year. Expect more drastic declines in mortgage rates in 1987. KEDI predicts that mortgage rates may drop to 8% next year--near the 6%-7% rate of 1977.

TABLE 1.41
HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Single family housing starts	Multi-family housing starts	Mobile home shipments	Permits authorized	1-Fam. unit price new**	1-Fam. unit price exist**
Unit	mil.	mil.	mil.	mil.	tho. $	tho. $
Year & Qtr.						
1984*	1.084	.665	.295	1.682	97.0	87.0
1985:1*	1.121	.674	.277	1.709	98.5	87.3
2*	1.076	.693	.281	1.731	100.8	90.6
3*	1.029	.641	.285	1.762	100.4	92.4
4*	1.060	.680	.291	1.736	104.5	91.1
YEAR	1.071	.672	.283	1.735	101.0	90.3
% change from '84	-1.2	1.1	-3.9	3.1	4.2	3.9
1986:1*	1.257	.733	.274	1.839	103.4	91.8
2	1.242	.663	.280	1.805	104.7	94.7
3	1.150	.651	.285	1.762	106.0	96.8
4	1.061	.620	.278	1.656	109.9	97.3
YEAR	1.177	.667	.279	1.765	106.0	95.2
% change from '84	9.9	-.8	-1.5	1.8	4.9	5.3
1987:1	1.012	.636	.276	1.584	110.2	99.6
2	1.140	.680	.297	1.786	111.1	100.4
3	1.251	.711	.308	1.953	112.0	102.0
4	1.112	.650	.295	1.879	114.1	104.6
YEAR	1.129	.669	.294	1.800	111.8	101.7
% change from '85	-4.1	.4	5.3	2.0	5.5	6.8

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1986
FORECAST
DATA

Percent Change
from
August 1986
Forecast

+ 5.56%	Dealer Inventory
+ 1.67%	Imported Car Sales
- .69%	Total Car Sales
- 1.60%	Domestic Car Sales
- 1.92%	Shipments
- 2.20%	Total Light Truck Sales

THE IMPACT OF INCENTIVES IS WEARING OFF. KEDI'S FORECAST SHOWS THAT THE DRASTIC CUTS IN INTEREST RATES FROM 2.9% TO ZERO IS BUT ANOTHER STOP GAP TO COMPENSATE FOR OVER PRODUCTION. THE FACT REMAINS THAT THE AUTOMOBILE CYCLE IS WINDING DOWN.

Auto makers must sell off huge inventories before introduction of the 1987 models. Average days' supply of cars should be near 60, however, at the end of August, days' supply looked like this:

GM	80 days
Chrysler	70 days
AMC	170 days

Production has been cut for 1986:3 by 3.4% compared to 1985:3. Planned production will have to be cut back for 1986:4 as well.

KEDI PRODUCTION FORECAST
1986:4 compared to 1985:4

GM	- 4.0%
Ford	+ 8.6%
Chrysler	- 3.4%
AMC	-25.5%
Nissan	+20.6%
Honda	+80.4%

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1984*	10.4	8.0	2.4	1.4	8.0	3.3
1985:1*	10.9	8.4	2.4	1.6	8.3	3.7
2*	10.9	8.2	2.7	1.6	8.0	3.6
3*	12.4	9.5	2.9	1.2	9.3	3.6
4*	10.3	7.4	3.3	1.3	7.9	3.9
YEAR	11.1	8.4	2.8	1.3	8.4	3.7
% change from '84	7.0	4.7	17.7	-7.1	4.7	12.1
1986:1	10.7	7.9	2.8	1.8	7.7	3.4
2	10.7	7.7	3.0	1.7	7.9	3.6
3	10.8	7.5	3.3	1.8	7.5	3.5
4	10.7	7.6	3.1	1.9	7.5	3.7
YEAR	10.7	7.7	3.0	1.9	7.7	3.5
% change from '85	-3.6	-11.6	8.0	46.2	-8.7	-4.1
1987:1	10.7	7.8	2.9	1.9	7.8	3.5
2	11.0	7.9	3.1	1.8	7.9	3.8
3	11.3	8.0	3.3	1.7	8.1	4.1
4	11.7	8.4	3.3	1.7	8.5	4.3
YEAR	11.2	8.0	3.1	1.7	8.1	3.9
% change from '86	4.2	.9	3.3	-10.5	5.6	10.6

*Historical data.

**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1986
FORECAST
DATA

Percent Change from August 1986 Forecast

+	.67%	State Local Corp. Tax Accrued
+	.28%	State Surplus/ Deficit
+	.14%	Federal Income Tax
+	.03%	State Income Tax
-	.20%	Corp. Profit Tax Accured
-	.60%	Surplus/ Deficit

FEDERAL BUDGET: It is anticipated that the federal budget for fiscal year 1987 will meet the Gramm-Rudman limits. Forecast data anticipates that the deficit reduction targets will be met in the following fiscal years due to the spending cuts and expected increases in revenues that will come from the tax overhaul act.

Calculations show that the increases in receipts from personal income taxes in 1987 and following years will result from expansion of employment with more taxpayers and more income.

The effect of the new tax law means that taxpayers will pay relatively less on taxes because of favorable tax rates. However, there will be less refunded with many loop holes closed.

ON BALANCE: Individual taxpayers will gain, but not as much as some economists anticipate because they will get much less in refunds.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

	-----FEDERAL----------			*---STATE AND LOCAL----*		
INDICATOR	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	311.3	74.4	-172.9	130.5	19.2	64.4
1985:1*	363.9	65.9	-165.6	137.8	17.5	63.2
2*	321.8	65.0	-209.1	141.1	17.3	57.3
3*	355.4	68.9	-201.3	142.9	18.5	56.9
4*	362.1	71.1	-224.2	146.3	19.2	59.4
YEAR	350.8	67.7	-200.1	142.0	18.1	59.2
% change from '84	12.7	-9.0	15.7	8.8	-5.6	-8.1
1986:1*	350.3	71.2	-201.6	147.2	17.5	70.0
2	352.3	75.3	-223.4	150.4	18.2	71.3
3	362.7	77.1	-226.1	154.3	19.2	72.5
4	387.1	80.2	-207.3	157.1	20.4	73.4
YEAR	363.1	76.0	-214.6	152.2	18.8	71.8
% change from '85	3.5	12.1	7.3	7.2	3.9	21.3
1987:1	396.9	87.2	-187.2	160.2	20.9	75.3
2	404.0	92.4	-181.3	162.7	21.6	77.0
3	413.1	97.6	-176.2	164.8	21.8	78.2
4	420.2	101.0	-169.7	167.2	22.2	79.3
YEAR	408.6	94.5	-178.6	163.7	21.6	77.5
% change from '86	12.5	24.5	-16.8	7.5	14.9	7.9

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1986
FORECAST
DATA

Percent Change
from
August 1986
Forecast

+ .32%	Corp. After Tax Profit
+ .06%	Comp. of Empl.
- .10%	Personal Income
- .14%	Personal Disp. Income
- .17%	Average Weekly Earnings
- 1.18%	Personal Savings

PERSONAL INCOME ROSE IN JULY BY A SOLID .5% AFTER THE .1% RISE IN JUNE. THIS IS A GOOD SIGN AND FORECAST DATE FOR THE BALANCE OF 1986 AND 1987 SHOWS GOOD, HEALTHY GAINS WITH NO INDICATION OF DECLINE OR STAGNATION.

KEDI's Outlook on Corporate Profits wwith inventory valuation and capital consumption adjustments (in bil. $):

	1985	1986	1987
Primary metal ind.	- 3.6	- .9	- .1
Fabricated metal prod.	4.1	4.4	4.6
Machinery except elect.	3.6	2.8	3.0
Electric & electronic equipment	4.9	5.4	5.9
Motor vehicles & equipment	6.8	6.1	6.4
Food & kindred products	7.8	8.3	9.1
Chemicals and allied prod.	4.7	6.4	7.3
Petroleum & coal products	13.4	35.8	37.6
Wholesale and retail trade	49.7	52.3	54.6

TABLE 1.60
INCOME

Quarterly data are seasonally adjusted at annual rates.

INDICATOR Unit	Pers. income bil. $	Pers. disp. income bil. $	Comp. of empl. bil. $	Corp. after tax profits bil. $	Pers. saving bil. $	Avg. week earn. $
Year & Qtr.						
1984*	3110.2	2670.6	2214.7	140.3	168.7	368.5
1985:1*	3253.1	2755.4	2316.3	126.1	144.1	374.6
2*	3298.7	2842.3	2352.1	126.7	183.6	378.5
3*	3323.2	2832.0	2380.9	133.4	119.6	384.6
4*	3382.9	2882.2	2423.6	139.4	125.8	390.3
YEAR	3314.5	2828.0	2368.2	131.4	143.3	382.0
% change from '84	6.6	5.9	6.9	-6.3	-15.1	3.7
1986:1*	3440.7	2943.2	2461.5	135.2	145.6	391.2
2	3486.3	2983.6	2476.7	140.8	152.7	393.7
3	3510.6	2993.6	2501.4	142.9	156.1	393.9
4	3560.9	3016.7	2566.3	145.7	158.3	400.1
YEAR	3499.6	2984.3	2501.5	141.2	153.2	394.7
% change from '85	5.6	5.5	5.6	7.4	6.9	3.3
1987:1	3608.8	3051.7	2592.7	149.0	161.3	402.3
2	3644.4	3077.7	2632.8	155.1	164.2	409.1
3	3712.5	3134.6	2666.1	159.6	167.1	413.2
4	3782.8	3195.4	2703.2	162.7	170.0	417.4
YEAR	3687.1	3114.9	2648.7	156.6	165.7	410.5
% change from '86	5.4	4.4	5.9	10.9	8.1	4.0

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1986
FORECAST
DATA

Percent Change from August 1986 Forecast

+ 1.13%	Currency & Demand Deposits
+ .15%	Large Demon. Time Deposits
+ .12%	Consumer Install. Credit
+ .11%	Mortg. at S&L Assns.
+ .06%	Comm. & Industrial Loans at Banks
- .12%	Time Deposits

EASY MONEY AND CREDIT POLICIES OF THE FEDERAL RESERVE ARE PREDICTED FOR THE REST OF THIS YEAR AND IN 1987.

Expect continuous strong growth in all main monetary aggregates, M1, M2, and M3. No restrictive actions of Fed on money supply are anticipated.

In credit aggregates the fastest growth is predicted for consumer installment credit: 8% in 1986 compared to 18% in 1985. The second fastest will be mortgages at 5.3% compared to 5.6% in 1985. Look for moderate expansion in commerical and industrial loans.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDI-CATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	545.0	2277.4	453.6	469.0	416.8	555.3
1985:1*	568.1	2417.0	470.5	481.2	421.0	559.3
2*	583.0	2455.1	494.3	484.3	422.7	569.3
3*	604.1	2513.5	516.4	487.2	425.6	575.6
4*	619.2	2550.5	535.1	493.9	436.5	586.1
YEAR	593.6	2484.0	535.1	493.9	436.5	586.1
% change from '84	8.9	9.1	18.0	5.3	4.7	5.5
1986:1	629.8	2581.3	551.5	502.1	450.4	577.0
2	657.8	2645.7	567.3	508.0	449.7	589.7
3	679.2	2730.1	574.3	511.4	454.5	599.4
4	684.8	2780.2	579.8	517.1	458.3	616.5
YEAR	662.9	2684.3	579.8	517.1	458.3	616.5
% change from '85	11.7	8.1	8.4	4.7	5.0	5.2
1987:1	690.3	2858.9	584.9	526.1	463.2	622.3
2	706.4	2920.4	593.1	530.3	468.6	629.7
3	716.7	2989.6	899.8	537.2	473.8	640.5
4	725.8	3046.8	610.3	545.2	481.2	642.6
YEAR	709.8	2953.9	610.3	545.2	481.2	642.6
% change from '86	7.1	10.0	5.3	5.4	5.0	4.2

*Historical data. n.s.a: not seasonally adusted.
s.a.: seasonally adjusted at annual rates.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1986
FORECAST
DATA

Percent Change
from
August 1986
Forecast

+ .81%	S & P's 500 Avg.
- .17%	Conv. Mortg. Rate
- .65%	20 yr. Govt. Bonds Yield
- 1.18%	Treas. Bills 3 mo. Yield.
- 1.38%	Aaa Corp. Bond Rate
- 3.48%	Prime Rate

KEDI forecast calls for further declines in interest rates throughout the rest of the year. Expect the Fed discount rate to drop by another half percent, and Federal Funds down by an additional .5 - .75 percent. Most significant drops will take place in consumer installment credit: credit cards, personal loans, and automobile loans.

There will be further drops in 1987 with stabilization predicted in the second half of 1987. The main candidate for declines in 1987 is mortgage rates to stimulate the housing activity. In the first half of 1987 mortgage rates may drop to around 8%.

Stocks and Bonds markets will remain stable with upward performance. No significant drops are anticipated.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR Unit	Treas. bills 3 mo. yield %	Prime rate %	Conv. mortg rate %	Aaa corp. bond rate %	20 yr. Govt. bonds yield %	S & P°s 1941-43 500 Avg %
Year & Qtr.						
1984*	9.52	12.04	13.84	12.71	12.48	160.50
1985:1*	8.18	10.54	13.28	12.06	11.41	177.30
2*	7.52	10.20	12.76	11.63	11.15	184.80
3*	7.11	9.50	12.58	11.03	10.74	188.30
4*	7.13	9.50	12.11	10.58	10.22	197.08
YEAR	7.48	9.93	12.68	11.32	10.88	186.87
% change from '84	-21.4	-17.5	-8.4	-10.9	-12.8	16.4
1986:1*	7.01	9.41	11.13	9.74	9.01	221.72
2	6.30	8.52	10.22	9.15	7.61	241.33
3	6.01	7.63	9.70	8.85	6.94	249.69
4	5.78	7.14	9.68	8.71	6.80	252.67
YEAR	6.28	8.18	10.18	9.11	7.59	241.35
% change from '85	-16.2	-17.7	-19.7	-19.5	-30.2	29.2
1987:1	5.56	7.05	9.51	8.53	6.51	250.43
2	5.32	7.00	9.32	8.20	6.02	253.72
3	5.20	6.92	9.14	8.06	5.71	256.75
4	5.02	6.70	8.86	7.94	5.54	259.41
YEAR	5.28	6.92	9.21	8.18	5.95	255.08
% change from '86	-15.9	-15.4	-9.6	-10.2	-21.7	5.7

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the 20 year Treasury Bonds yield has been selected for comparison. The actual figure appears in the Federal Reserve Bulletin (Board of Governors of the Federal Reserve System, Washington, D.C.), July 1986 issue, page A38 (Contract rate plus fees and charges). Forecast data are in Business Forecasts 1985 (Federal Reserve Bank of Richmond, Virginia, February 1985). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
Conventional Mortgage Rate
Actual figure: 13.65

Forecaster (and page in source)	Date of Forecast	Forecast	Accuracy %
First Interstate Bank of Calif., p.16	11/19/84	13.28*	- 2.8
UCLA Business Forecasting Project, p. 22	12/13/84	12.70%	- 6.9
Wharton Econometric Forecasting Associates, p. 30	12/26/84	11.45	-16.1
Kent Economic and Development Institute, p. 32	1/1/85	13.25	- 2.9

Care should be exercised when interpreting the data. Some forecasters may have different definitions of the Conventional Mortgage Rate.

* Calculated as average of four quarterly data.

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	SCB, Blue pages
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36

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KEDI ECONOMIC SURVEY

October 1, 1986

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SOURCES:

U.S.Department of Commerce revised estimates of 1986:2, National Income and Product data, September 20, 1986.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, September 1986.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Manufacturing continues to show good signs--inch by inch. Newly revised data for IIP is more optimistic for this year.

Prices

Inflation will remain low for the balance of this year; however, the CPI will be pushed up by prices of services.

Employment & Labor

Unemployment rate will hover around 6.9-7.0% for the rest of 1986. Look for 6.9% through 1987.

Housing

KEDI has been forecasting 1987 at 1.7-1.8 million units for many months. Now, other forecasters are singing the same tune.

Automobiles

Automakers will post significantly reduced profits for third quarter. GM to build 13% fewer cars in October.

Budgets

Five years of huge federal budget deficits did not bring inflation. On the contrary, inflation is very low.

Income

Stable, solid incrrease in personal income and personal disposable income are predicted for the rest of 1986 and 1987.

Money & Credit

The Fed can pump money into the economy without a risk of igniting inflation.

Interest Rates, Yields & Securities Prices

Interest rates will keep declining through 1986, stabilizing at low levels in 1987 with some upward movement near year end.

0.02 ASSUMPTIONS

		Last Update
1.	In 1986, the weighted price of oil will stabilize; in 1987 it will increase slightly and continue at that level in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, and will continue into 1987.	October 1986
3.	In 1987 and 1988 good crops in all main producing countries are anticipated.	September 1986
4.	Foreign trade with China will expand in 1986 and following years.	Jan 1984
5.	Average rates of growth in 1984-1990 in major industrial countries are anticipated: West Germany 3.1%; Italy 2.4%; Great Britain 2.5%; France 2,6%; Japan 2.9%.	Jan 1985
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the July 1986 KEDI forecast.

* In 1986 and 1987 moderate growth is expected.

* An upward trend in 1987 is anticipated. It will continue throughout 1988 - 1990.

* Forecast data for 1986-1990 do not point to recession or major downturn.

* Financial outlook is optimistic.

* Federal budget deficits will keep declining in 1986 and the following fiscal years.

* This year's export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

Indicator	Unit	1985	1988	1989	1990
Gross national	bil. 82$	3575.2	3904.2	4033.0	4133.9
product, p. 5	% change	2.4	3.5	3.3	2.5
Index of indust.	1977=100	123.8	134.1	139.2	144.3
prod., p. 5	% change	2.0	4.1	3.8	3.7
Capacity	%	80.4	80.6	79.6	78.9
utiliz., p. 5	% change	-.7	.6	-1.2	-.9
Unemployment	%	7.2	6.6	6.5	6.6
rate, p. 5	% change	-4.2	-3.1	1.0	.8
Private housing	mil.units	1.7	1.8	1.8	1.7
starts, p. 5	% change	-1.0	6.2	-3.1	-2.1
Car sales,	mil.units	11.1	11.6	11.3	11.2
p. 5	% change	7.0	8.7	-2.9	-.6
Implicit GNP	1982=100	112.3	121.2	125.8	131.0
price def., p. 9	% change	3.7	3.1	3.8	4.1
Consumer Price	1967=100	322.1	346.9	359.3	373.0
Index, p. 9	% change	3.6	3.2	3.6	3.8
Prod.Price Index	1967=100	293.9	425.8	445.4	459.2
(fin.goods),p.9	% change	.6	41.0	4.6	3.1
Federal Deficit	bil. $	-200.1	-163.6	-139.4	-117.6
p. 19	% change	15.1	-10.1	-14.8	-15.6
Personal Income	bil. $	3314.5	3964.8	4242.4	4543.6
p. 21	% change	6.6	6.9	7.0	7.1
Prime Rate	%	9.9	7.3	8.1	8.8
p. 25	% change	-17.5	1.7	9.8	9.1
Mortgage Rate	%	12.7	8.8	9.1	8.6
p. 25	% change	-8.4	-3.0	3.6	-5.9
Currency+demand	bil. $	593.6	765.1	812.6	854.0
deposits, p. 23	% change	8.9	7.4	6.2	5.1
Commercial+ind.	bil. $	493.9	568.7	585.2	596.9
loans, p. 23	% change	5.3	4.2	2.9	2.0
Raw steel	mil.sh.tons	88.1	90.2	89.8	90.0
production	% change	-4.8	1.1	-.4	.2
Electric power	mil.kw-hr	2576	3104	3246.8	3422.1
production	% change	6.5	6.1	4.6	5.4
Bituminous coal	mil.sh.tons	896	932	973.1	984.8
production	% change	.1	1.3	1.1	1.2
Crude oil	avg. daily bbl.	3279	2151	2112.3	2152.4
output	% change	.9	-2.7	-1.8	1.9
Retail sales	bil. $	1377.7	1632.9	1729.2	1839.9
p. 7	% change	6.2	6.5	5.9	6.4

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH

See Table 1.11
Page 5

1986 FORECAST DATA

Percent Change from September 1986 Forecast

+ 1.93%	Private Housing Starts
+ 1.40%	Autos
+ .75%	Unemployment
+ .20%	Index Indus. Prod.
- .02%	GNP
- .13%	Capacity Util.

MANUFACTURING CONTINUES TO SHOW GOOD SIGNS--INCH BY INCH.

* CONSTRUCTION SPENDING:
July $378.1 billion
August $382.2 billion

* FACTORY SHIPMENTS:
June $193.63 billion
July $194.45 billion

* CAPACITY UTILIZATION IN MFG:
July 79.5%
August 79.6%

* ORDERS FOR DURABLES:
Declined in August by 2.6% after a healthy July increase of 3.4%.
INCREASES IN AUGUST:
Primary Metals +12.5%
Household durables +1.7%

NEWLY REVISED DATA FOR INDEX OF INDUSTRIAL PRODUCTION IS MORE OPTIMISTIC FOR THIS YEAR:

COMPARISON
(1977=100)

	New Data	Old Data
1985:1	125.0	124.5
1985:2	124.4	123.7

Data on Index of Industrial Production show an end to the precipitous decline in the OIL AND GAS INDUSTRY.

	Annual Average
1986	94.3
1987	93.2
1989	94.3
1990	96.8

TABLE 1.11
SELECTED INDICATORS I.

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod**	Unemployment	Capacity util'n rate**	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1984*	3489.9	121.4	7.52	81.0	1.750	10.4
1985:1*	3547.0	123.1	7.32	80.7	1.793	10.9
2*	3567.6	123.4	7.31	80.5	1.769	10.9
3*	3603.8	124.0	7.17	80.3	1.641	12.4
4*	3622.3	124.7	7.02	80.1	1.729	10.3
YEAR	3575.2	123.8	7.21	80.4	1.733	11.1
% change from '84	2.4	2.0	-4.2	-.7	-1.0	7.0
1986:1*	3655.9	125.0	7.06	80.0	1.990	10.7
2*	3661.4	124.4	7.16	79.6	1.905	10.7
3	3672.9	124.8	6.89	78.5	1.778	11.4
4	3694.2	125.6	6.94	78.3	1.666	10.6
YEAR	3671.1	125.0	7.01	79.1	1.835	10.8
% change from '85	2.7	.9	-2.7	-1.6	5.9	-2.5
1987:1	3725.4	126.5	6.91	79.0	1.616	10.4
2	3749.0	127.3	6.88	79.8	1.757	10.6
3	3785.9	128.8	6.79	80.5	1.837	11.0
4	3828.4	132.6	6.77	81.1	1.736	10.7
YEAR	3772.2	128.8	6.84	80.1	1.737	10.7
% change from '86	2.8	3.1	-2.5	1.3	-5.4	-1.6

*Historical data.

**New, revised series

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

CONSUMER BUYING BINGE CONTINUES. July posted a .6% increase in consumer spending with August adding on another 1.1%

NO INDICATIONS THAT CONSUMER SPENDING WILL SLOW FOR THE BALANCE OF THIS YEAR:

September	+1.8%
October	+ .9%
November	+ .4%
December	+2.8%

WAGE AND SALARY INCOME ROSE BY A SOLID .6% IN AUGUST.

RETAIL SALES posted an August increase of .8% after 1.5% rise in July. Forecast for the rest of this year remains optimistic: (increases over the previous month)

2.8%	increase in September (mainly from autos)
.5%	increase in October
4.2%	increase in November
3.9%	increase in December

BEST PERFORMANCES expected in:
- Building materials
- Other consumer durables and apparel.

SLOW for food stores and gasoline stations.

**1986
FORECAST
DATA**

Percent Change from September 1986 Forecast

+ .04%	Pers. Con. Exp. Services
- .02%	Pers. Con. Exp. Durables
- .17%	Retail Sales Nondurable
- .19%	Retail Sales Total
- .24%	Retail Sales Durables
- .28%	Pers. Cons. Exp. Nondurable

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Personal Cons. Expend.			Retail Sales		
	Durables	Nondurables	Services	Total	Durables	Nondurables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1984*	331.2	870.1	1227.0	1297.0	464.3	832.7
1985:1*	347.7	888.2	1294.9	1339.7	489.8	849.9
2*	354.0	902.3	1319.7	1375.9	511.1	864.8
3*	373.3	907.4	1346.4	1403.7	532.8	870.9
4*	362.0	922.6	1383.2	1391.6	512.5	879.1
YEAR	359.2	905.1	1336.1	1377.7	511.6	866.2
% change from '84	8.5	4.0	8.9	6.2	10.2	4.0
1986:1*	360.8	929.7	1415.5	1410.8	526.4	884.4
2*	373.9	928.4	1428.1	1443.6	532.1	911.5
3	391.5	933.5	1416.6	1459.2	538.9	920.3
4	395.1	941.9	1425.9	1473.1	541.0	932.1
YEAR	380.3	933.4	1421.6	1446.7	534.6	912.1
% change from '85	5.9	3.1	6.4	5.0	4.5	5.3
1987:1	400.3	952.1	1447.8	1489.4	548.2	941.2
2	407.2	960.1	1460.9	1514.0	560.1	953.9
3	410.1	971.2	1499.0	1548.2	581.6	966.6
4	415.6	984.3	1541.1	1581.3	590.2	991.1
YEAR	408.3	966.9	1487.2	1533.2	570.0	963.2
% change from '86	7.4	3.6	4.6	6.0	6.6	5.6

1.13 REAL GNP

See Table 1.13
Page 9

GOOD NEWS FROM FINAL DATA FOR 1986:2:

* Inventory building in the business sector has slowed down from an increase of +37% in 1986:1 to +10% in 1986:2.

* Consumer spending rose by $35.7 billion (in 1982 $) from $2372.7 billion in 1986:1 to $2408.4 billion in 1986:2.

. . . AND NOW THE BAD NEWS:

* Foreign trade gap has increased from -125.9 in 1986:1 to -153.9 in 1986:2. KEDI believes this is a peak and with declines expected in 1986:3.

* Business investment in structures has declined from 148.1 in 1986:1 to 141.5 in 1986:2. This is a longer lasting trend due to over capacity of office space, factories, and shopping malls.

1986 FORECAST DATA

Percent Change from September 1986 Forecast

+ 1.90%	Net Exports
+ .15%	Pers. Cons. Expend.
+ .01%	State Local Purch.
- .02%	GNP
- .07%	Federal Govt. Purch.
- .20%	Gross Private Dom. Inv.

TABLE 1.13
REAL GNP

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Gross National Product					
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1984*	3489.9	224.6	661.3	-83.6	291.7	383.5
1985:1*	3547.0	2292.3	652.0	-78.8	305.8	389.5
2*	3567.6	2311.9	638.2	-108.1	311.4	396.9
3*	3603.8	2342.0	655.6	-113.8	329.9	401.9
4*	3622.3	2351.7	643.8	-132.0	347.2	402.2
YEAR	3575.2	2324.5	647.4	-108.2	323.6	397.6
% change from '84	2.4	934.8	-2.1	29.4	10.9	3.7
1986:1*	3655.9	2372.6	684.0	-125.9	320.4	404.8
2*	3661.4	2408.4	664.7	-153.9	328.9	413.3
3	3672.9	2412.7	660.5	-150.7	334.3	416.1
4	3694.2	2421.9	664.3	-148.7	336.7	420.0
YEAR	3671.1	2403.9	668.4	-144.8	330.1	413.6
% change from '85	2.7	3.4	3.2	33.8	2.0	4.0
1987:1	3725.4	2430.0	669.4	-144.3	338.6	422.5
2	3749.0	2447.2	673.7	-140.2	339.2	429.1
3	3785.9	2469.6	678.3	-138.8	340.1	436.7
4	3828.4	2498.1	681.4	-135.4	342.1	442.2
YEAR	3772.2	2453.4	675.7	-139.7	350.1	432.6
% change from '86	2.8	2.1	1.1	-3.5	6.1	4.6

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1986
FORECAST
DATA

Percent Change from September 1986 Forecast

+ .08%	Federal Govt. Purch.
+ .08%	State Local Purch.
- .08%	Consumer Price Index
- .09%	GNP
- .28%	Pers. Cons. Expend.
- .63%	Producer Price Index

INFLATION VERY LOW AS CONSUMER PRICE INDEX INCREASED FROM 327.9 IN JUNE TO 328.0 IN JULY.

Excluding food and energy, this represents modest increases of .3% in June and .4% in July.

Inflation will remain low for the balance of this year; however, the CPI will be pushed up by PRICES OF SERVICES. The SERVICE component of the CPI is approximately 30% of CPI items, and prices of services continue an upward trend:

	1985	1985	1987
Medical Care	+7.8%	+6.2%	+6.0%
Transportation	+6.0%	+6.3%	+6.7%
Entertainment	+5.0%	+5.7%	+6.2%

PRODUCER PRICE INDEX: Do not expect significant increases for the rest of this year since there is very little upward pressure on prices of crude goods, intermediate, and final goods. There is still a world-wide excess capacity in many industries that is pressuring prices down despite the low international value of the dollar.

TABLE 1.21
PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--*		*-------Price deflators--------*			
	Cons. price index n.s.a.**	Prod. price index n.s.a.**	Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1984*	311.1	292.1	108.3	108.4	107.9	110.3
1985:1*	317.4	292.8	110.9	111.8	110.5	114.1
2*	321.2	293.7	111.9	112.0	110.5	115.7
3*	323.5	292.8	112.6	112.8	110.8	117.0
4*	326.5	296.2	113.7	114.1	112.1	118.5
YEAR	322.1	293.9	112.3	112.7	111.0	116.3
% change from '84	3.6	.6	3.7	3.9	2.8	5.5
1986:1*	327.3	292.3	113.7	114.1	111.0	118.7
2*	326.5	288.3	114.0	113.4	111.8	119.3
3	328.2	288.4	114.5	113.6	112.5	120.1
4	329.4	290.1	115.4	114.1	114.4	121.5
YEAR	327.9	289.8	114.4	113.8	112.4	119.9
% change from '85	1.8	-1.4	1.9	1.0	1.3	3.1
1987:1	331.5	294.6	116.0	115.2	115.5	122.2
2	334.9	300.1	117.0	115.6	116.7	124.0
3	337.8	305.2	118.1	116.6	117.8	125.7
4	340.2	308.1	119.2	117.7	119.2	127.7
YEAR	336.1	302.0	117.6	116.2	117.3	124.9
% change from '86	2.5	4.2	2.8	2.1	4.3	4.2

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*Historical data.

**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1986
FORECAST
DATA

Percent Change
from
September 1986
Forecast

+ 4.44%	Net Exports
+ .15%	Federal Govt. Purch.
+ .02%	State Local Purch.
- .06%	Gross Private Dom. Inv.
- .08%	Pers. Cons. Expend.
- .15%	GNP

NOMINAL GNP FOR 1986:2 PRESENTS A BETTER PICTURE WHEN COMPARED TO 1986:1 AND 1985:4:

- Foreign trade gap in 1986:2 increased but HAS NOT REACHED the peak of 1985:4. Declines in foreign trade gap are forecast starting with 1986:3.
- Strong consumer spending (in bil. $)

1986:1	1986:2
2706.0	2732.0

Forecast shows further significant increases in 1986:3 and 1986:4.

THE CONSUMER REMAINS AND WILL REMAIN THE MAIN FORCE PUSHING THE ECONOMY FORWARD.

TABLE 1.22
NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

	*-----Gross National Product					-----*
INDICATOR	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	3765.0	2423.0	662.1	-58.7	311.3	422.2
1985:1*	3909.3	2525.0	650.6	-49.4	333.7	443.5
2*	3965.0	2563.3	667.1	-77.1	340.9	458.1
3*	4030.5	2641.8	657.4	-83.7	360.9	468.8
4*	4087.7	2634.8	669.5	-105.3	380.9	474.7
YEAR	3998.1	2619.1	661.1	-78.9	354.1	461.3
% change from '84	6.2	8.1	-.1	34.4	13.7	9.2
1986:1*	4156.8	2706.0	708.3	-93.7	355.6	480.5
2*	4174.0	2730.4	687.3	-104.5	367.7	493.1
3	4205.5	2741.6	689.2	-101.2	376.1	499.7
4	4263.1	2762.9	703.0	-98.3	385.2	510.3
YEAR	4199.8	2735.3	697.0	-99.4	371.2	495.9
% change from '85	5.0	4.4	5.4	26.1	4.8	7.5
1987:1	4321.5	2800.2	709.2	-95.3	391.1	516.3
2	4386.3	2828.2	720.4	-90.2	395.8	532.1
3	4471.1	2880.3	725.2	-83.9	400.6	548.9
4	4563.5	2941.0	730.4	-80.4	407.8	564.7
YEAR	4435.1	2858.1	721.3	-87.5	398.8	540.5
% change from '86	5.6	4.5	3.5	-12.0	7.5	9.0

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1986
FORECAST
DATA

Percent Change
from
September 1986
Forecast

+ .75%	Unemployment rate
0.00%	Agriculture
- .01%	Population
- .17%	Civilian Labor Force
- .25%	Total Employed
- .26%	Non-Agri.

UNEMPLOYMENT RATE WILL HOVER AROUND 6.9-7.0% FOR THE REST OF 1986. LOOK FOR 6.9% THROUGH 1987.

AUGUST DATA FOR MANUFACTURING SHOWS 19,000 NEW JOBS. THIS IS A GOOD INDICATION THAT MANUFACTURING WILL SEE BETTER DAYS:

AGRICULTURE will post small declines.

CONSTRUCTION is levelling off, declining in private housing construction and nonresidential private sectors. Increases will occur in public projects and road repair and construction.

MANUFACTURING is levelling off in oil and gas exploration, as well as in primary metals and fabricated metal products. Increases occur in foods, textiles, paper, printing and publishing.

TRADE shows further increases in retail, levelling off in wholesale.

TRANSPORTATION is stable in railroads and trucking with airlines levelling off.

SERVICES show strong increases in most segments.

TABLE 1.30
EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------* Total	Agricult.	Non-agric.	Unemployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1984*	237.4	113.5	105.0	3.4	101.6	7.52
1985:1*	239.8	115.2	107.1	3.4	103.4	7.32
2*	240.9	115.2	106.9	3.3	103.6	7.31
3*	242.3	115.5	107.2	3.0	104.2	7.17
4	243.7	116.2	108.0	3.1	104.9	7.02
YEAR	241.7	115.4	107.1	3.2	103.9	7.21
% change from '84	1.8	1.7	1.6	-5.9	2.3	-4.19
1986:1*	244.5	117.0	108.7	3.1	105.6	7.06
2*	245.9	117.7	109.3	3.1	106.2	7.16
3	247.3	118.4	110.2	3.1	107.1	6.89
4	249.8	118.9	110.6	3.1	107.5	6.94
YEAR	246.9	118.0	109.7	3.1	106.6	7.01
% change from '85	2.2	2.3	2.3	-3.1	2.6	-2.67
1987:1	250.7	119.5	111.2	3.1	108.1	6.91
2	252.6	120.6	112.3	3.1	109.2	6.88
3	254.3	122.0	113.7	3.1	110.6	6.79
4	256.5	122.4	114.1	3.1	111.0	6.77
YEAR	253.5	121.1	112.8	3.1	109.7	6.84
% change from '86	2.7	2.6	2.7	0.0	2.9	-2.50

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1986
FORECAST
DATA

Percent Change
from
September 1986
Forecast

+ .03%	Single Family Existing
0.00%	Single Family New
- .13%	Single Family Housing Starts
- .45%	Multiple Housing Starts
- 1.16%	Multiple Family Housing Starts
- 1.22%	Permits

HOUSING STARTS STILL SLIPPING

INVENTORY REMAINS TOO HIGH.

Second quarter 1986 averaged out at 1.905 million units while July was down to 1.815 million units and August was at 1.822 million units.

DO NOT LOOK FOR A NEW HOUSING CYCLE TO START BEFORE 1988.

Forecast data for APARTMENT units for the rest of this year and in 1987 shows it to be depressed at least one year due to high vacancy rates, and investor reluctance due to new tax legislation.

KEDI has been forecasting 1987 at 1.7-1.8 million units for many months. NOW, other forecasters are singing the same tune.

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR Unit	Single family housing starts mil.	Multi-family housing starts mil.	Mobile home shipments mil.	Permits authorized mil.	1-Fam. unit price new** tho. $	1-Fam. unit price exist** tho. $
Year & Qtr.						
1984*	1.084	.665	.295	1.682	97.0	87.0
1985:1*	1.121	.674	.277	1.709	98.5	87.3
2*	1.076	.693	.281	1.731	100.8	90.6
3*	1.029	.641	.285	1.762	100.4	92.4
4*	1.060	.680	.291	1.736	104.5	91.1
YEAR	1.071	.672	.283	1.735	101.0	90.3
% change from '84	-1.2	1.1	-3.9	3.1	4.2	3.9
1986:1*	1.257	.733	.274	1.839	103.4	91.8
2*	1.242	.663	.280	1.805	104.7	94.7
3	1.151	.627	.284	1.671	106.1	96.9
4	1.052	.614	.273	1.659	109.8	97.5
YEAR	1.175	.659	.278	1.744	106.0	95.2
% change from '84	9.7	-1.9	-2.0	.5	4.9	5.4
1987:1	1.010	.606	.270	1.591	110.2	99.8
2	1.106	.651	.291	1.745	111.3	100.6
3	1.203	.702	.301	1.864	112.1	102.7
4	1.102	.634	.288	1.828	114.3	104.9
YEAR	1.105	.648	.287	1.757	112.0	102.0
% change from '85	-6.0	-1.7	3.5	.8	5.6	7.1

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1986
FORECAST
DATA

Percent Change from September 1986 Forecast

+ 1.67%	Imported Car Sales
+ 1.43%	Total Light Truck Sales
+ 1.40%	Total Car Sales
+ 1.30%	Domestic Car Sales
0.00%	Dealer Inventory
- .32%	Shipments

AUTOMAKERS WILL POST SIGNIFICANTLY REDUCED PROFITS FOR THIRD QTR. GENERAL MOTORS TO BUILD 13% FEWER CARS IN OCTOBER, WITH THE 4TH QTR DOWN BY 8%.

- Incentives helped clear out excess inventories, but did not accomplish all that was expected.
- The cost of the incentives to the automakers was high and will reduce profits in the 3rd qtr.

With the incentives in early September, car sales shot up 37%, equaling an annual rate of 18.5 million units. By mid-September, they dropped to a rate of only 1.7% above the same period of last year.

TABLE 1.42
AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1984*	10.4	8.0	2.4	1.4	8.0	3.3
1985:1*	10.9	8.4	2.4	1.6	8.3	3.7
2*	10.9	8.2	2.7	1.6	8.0	3.6
3*	12.4	9.5	2.9	1.2	9.3	3.6
4*	10.3	7.4	3.3	1.3	7.9	3.9
YEAR	11.1	8.4	2.8	1.3	8.4	3.7
% change from '84	7.0	4.7	17.7	-7.1	4.7	12.1
1986:1*	10.7	7.9	2.8	1.8	7.7	3.4
2*	10.7	7.7	3.0	1.7	7.9	3.6
3	11.4	8.1	3.3	1.6	7.6	3.7
4	10.6	7.5	3.1	1.9	7.5	3.5
YEAR	10.8	7.8	3.0	1.9	7.7	3.5
% change from '85	-2.5	-10.4	8.0	46.2	-8.4	-4.1
1987:1	10.4	7.5	2.9	1.9	7.7	3.4
2	10.6	7.5	3.1	1.8	7.7	3.7
3	11.0	7.7	3.3	1.7	8.0	3.9
4	10.7	7.4	3.3	1.8	8.1	4.0
YEAR	10.7	7.5	3.1	1.8	7.9	3.8
% change from '86	-1.6	-4.9	3.3	-5.3	2.6	5.6

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1986
FORECAST
DATA

Percent Change
from
September 1986
Forecast

+ 3.37%	Surplus/ Deficit
+ .27%	State Local Corp. Tax Accrued
+ .11%	Federal Income Tax
- .10%	Corp. Profit Tax Accrued
- .15%	State Income Tax
-11.66%	State Surplus/ Deficit

AS ANTICIPATED, THE FEDERAL BUDGET WILL MEET THE REQUIREMENTS OF GRAMM-RUDMAN.

The House of Representatives is ready to clear the $15 billion deficit cuts, while the Senate is at $13 billion. No further problems are anticipated with the 1987/88 fiscal year Federal Budget.

KEDI's forecast shows further deficit reductions will take place in the following years. However, KEDI remains skeptical that the budget can be balanced in 1991. In fact, the problem of the FEDERAL BUDGET DEFICIT is not as painful as some writers attempt to depict:

* If the Federal Budget is balanced by 1991, STATE AND LOCAL BUDGETS will continue to show surpluses of about $80 billion at that time. This could bring about a serious situation in the economy because the public sector will absorb more funds than it releases bring about DEFLATION, UNEMPLOYMENT AND A GENERAL SLOWING DOWN OF THE ECONOMY.

* Five years of huge federal budget deficits did not bring inflation. On the contrary, inflation is very low.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

	-----FEDERAL----------			*---STATE AND LOCAL----*		
INDICATOR	Income taxes	Corp. profits tax accru.	Surplus /deficit	Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	311.3	74.4	-172.9	130.5	19.2	64.4
1985:1*	363.9	65.9	-165.6	137.8	17.5	63.2
2*	321.8	65.0	-209.1	141.1	17.3	57.3
3*	355.4	68.9	-201.3	142.9	18.5	56.9
4*	362.1	71.1	-224.2	146.3	19.2	59.4
YEAR	350.8	67.7	-200.1	142.0	18.1	59.2
% change from '84	12.7	-9.0	15.7	8.8	-5.6	-8.1
1986:1*	350.3	71.2	-201.6	147.2	17.5	70.0
2*	353.1	75.2	-238.1	151.7	18.1	59.0
3	363.2	77.0	-236.2	153.8	19.3	61.3
4	387.4	80.3	-211.4	155.2	20.5	63.4
YEAR	363.5	75.9	-221.8	152.0	18.9	63.4
% change from '85	3.6	12.1	10.9	7.0	4.0	7.1
1987:1	396.8	87.4	-190.2	158.2	20.2	65.2
2	404.1	92.6	-183.2	160.7	21.1	67.1
3	413.2	97.1	-180.1	164.2	21.2	70.3
4	420.4	100.2	-174.3	167.0	21.7	73.8
YEAR	408.6	94.3	-181.9	162.5	21.1	69.1
% change from '86	12.4	24.2	-18.0	6.9	11.7	8.9

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*Historical data.

1.60 INCOME

See Table 1.60 - page 23

STABLE, SOLID INCREASES IN PERSONAL INCOME AND PERSONAL DISPOSABLE INCOME ARE PREDICTED FOR THE REST OF 1986 AND 1987.

* Wage and salary income will grow faster than total personal income.
* Personal disposable income will grow faster than personal income with the new tax laws.
* Saving rate will continue improving with more personal savings.
* Resumption of growth of corporate profits.

1986
FORECAST
DATA

Percent Change
from
September 1986
Forecast

+ .27%	Personal Disp. Income
+ .23%	Personal Income
0.00%	Comp. of Empl.
- .05%	Average Weekly Earnings
- .29%	Personal Savings
- .76%	Corp. After Tax Profit

TABLE 1.60
INCOME

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1984*	3110.2	2670.6	2214.7	140.3	168.7	368.5
1985:1*	3253.1	2755.4	2316.3	126.1	144.1	374.6
2*	3298.7	2842.3	2352.1	126.7	183.6	378.5
3*	3323.2	2832.0	2380.9	133.4	119.6	384.6
4*	3382.9	2882.2	2423.6	139.4	125.8	390.3
YEAR	3314.5	2828.0	2368.2	131.4	143.3	382.0
% change from '84	6.6	5.9	6.9	-6.3	-15.1	3.7
1986:1*	3444.3	2946.8	2461.5	135.2	145.6	391.2
2*	3489.3	2984.5	2476.9	138.0	153.1	393.9
3	3523.8	3006.8	2501.1	142.0	155.2	393.7
4	3573.8	3031.2	2566.9	145.3	157.1	399.2
YEAR	3507.8	2992.3	2501.6	140.1	152.8	394.5
% change from '85	5.8	5.8	5.6	6.6	6.6	3.3
1987:1	3613.4	3058.4	2592.0	148.3	161.0	402.0
2	3661.8	3097.0	2632.1	154.6	164.1	408.6
3	3741.7	3164.3	2665.7	158.6	166.8	411.8
4	3818.9	3231.5	2702.4	161.0	168.3	416.9
YEAR	3708.9	3137.8	2648.1	155.6	165.1	409.8
% change from '86	5.7	4.9	5.9	11.1	8.1	3.9

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1986 FORECAST DATA

Percent Change from September 1986 Forecast

+ 2.59%	Consumer Install. Credit
+ .15%	Comm. & Indust. Loans at Banks
+ .05%	Currency & Demand Deposits
+ .01%	Time Deposits
0.00%	Mortg. at S&L Assns.
- 1.07%	Large Denom. Time Deposits

IS THE FEDERAL RESERVE

GAMBLING WITH INFLATION?

ALL INDICATIONS POINT TO NO!

The Federal Reserve has been pumping enormous amounts of money into the economy for nearly two years. The increases in money supply have been unprecedented, however, it has not brought about INFLATION.

The money supply has skyrocketed, and will continue, but price increases are almost null or negligible.

Data and facts indicate convincingly that at the present phase of the cycle, the amount of money available does NOT determine price increases. At the present time THERE IS NO DIRECT RELATION between money and prices.

PRICES are determined by income and funds available to be spent on purchases of goods and services. If INCOME AND FUNDS are increasing proportionately to the amount of goods and services available, then there is simply no room for prices to go up, regardless of the amount of money in circulation. This is how KEDI sees the situation at the present time:

THE FED CAN PUMP MONEY INTO THE ECONOMY WITHOUT A RISK OF IGNITING INFLATION!

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1984*	545.0	2277.4	453.6	469.0	416.8	555.3
1985:1*	568.1	2417.0	470.5	481.2	421.0	559.3
2*	583.0	2455.1	494.3	484.3	422.7	569.3
3*	604.1	2513.5	516.4	487.2	425.6	575.6
4*	619.2	2550.5	535.1	493.9	436.5	586.1
YEAR	593.6	2484.0	535.1	493.9	436.5	586.1
% change from '84	8.9	9.1	18.0	5.3	4.7	5.5
1986:1*	629.8	2581.3	551.5	502.1	450.4	577.0
2*	657.8	2645.7	572.9	508.0	449.7	589.7
3	679.1	2730.6	589.6	511.8	451.2	598.3
4	686.3	2780.4	594.8	517.9	453.4	614.4
YEAR	663.2	2684.5	594.8	517.9	453.4	616.5
% change from '85	11.7	8.1	11.2	4.9	3.9	5.2
1987:1	690.3	2859.2	600.9	526.9	458.7	620.1
2	709.8	2919.7	608.4	534.4	462.1	628.5
3	720.7	2988.5	619.7	539.7	469.4	637.9
4	728.8	3044.3	628.6	545.8	474.5	640.6
YEAR	712.4	2952.9	628.6	545.8	474.5	640.6
% change from '86	7.4	10.0	5.7	5.4	4.7	3.9

*Historical data. n.s.a: not seasonally adusted.
s.a.: seasonally adjusted at annual rates.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

INTEREST RATES WILL KEEP DECLINING FOR THE REST OF THE YEAR, STABILIZING AT LOW LEVELS IN 1987 WITH SOME UPWARD MOVEMENT NEAR THE END OF 1987.

KEDI believes that, in the present phase of the development of the US economy, the low interest rates and easy money policy will not ignite INFLATION.

Other forecasters are climbing on the bandwagon by saying what KEDI has been advocating since 1984: INTEREST RATES WILL GO DOWN AND REMAIN LOW.

Treasury Bills (3 mo.)

	Chase Econom.	Data Resour.	Merrill Lynch
1986:4	5.4	5.2	5.5
1987:1	5.5	5.3	5.0
1987:2	5.6	5.6	4.8
1987:3	6.0	5.6	4.6
1987:4	6.1	5.8	4.6

NOW, their forecasts do not deviate too much from KEDI.

Look for stable, slightly upward performance of the stock market for the rest of 1986 and 1987.

1986 FORECAST DATA

Percent Change from September 1986 Forecast

+ 1.38%	Prime Rate
+ .30%	20 yr. Govt. Bonds Yield
+ .15%	Conv. Mortg. Rate
- .52%	Treas. Bills 3 mo. Yield
- .74%	S & P's 500 Avg.
- .77%	Aaa Corp. Bond Rate

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P°s 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1984*	9.52	12.04	13.84	12.71	12.48	160.50
1985:1*	8.18	10.54	13.28	12.06	11.41	177.30
2*	7.52	10.20	12.76	11.63	11.15	184.80
3*	7.11	9.50	12.58	11.03	10.74	188.30
4*	7.13	9.50	12.11	10.58	10.22	197.08
YEAR	7.48	9.93	12.68	11.32	10.88	186.87
% change from '84	-21.4	-17.5	-8.4	-10.9	-12.8	16.4
1986:1*	7.01	9.41	11.13	9.74	9.01	221.72
2*	6.14	8.52	10.26	9.00	7.67	240.58
3	6.01	7.79	9.74	8.80	6.92	245.70
4	5.83	7.45	9.65	8.62	6.85	250.28
YEAR	6.25	8.29	10.20	9.04	7.61	239.57
% change from '85	-16.5	-16.5	-19.6	-20.2	-30.0	28.2
1987:1	5.62	7.25	9.54	8.23	6.53	248.46
2	5.43	7.16	9.16	8.11	6.12	250.78
3	5.21	7.21	8.85	8.01	5.76	255.72
4	5.24	7.25	8.64	7.82	5.61	258.43
YEAR	5.38	7.22	9.05	8.04	6.00	253.35
% change from '86	-14.0	-13.0	-11.3	-11.0	-21.1	5.8

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the 20 year Treasury Bonds yield has been selected for comparison. The actual figure appears in the Federal Reserve Bulletin (Board of Governors of the Federal Reserve System, Washington, D.C.), July 1986 issue, page A38 (Contract rate plus fees and charges). Forecast data are in Business Forecasts 1985 (Federal Reserve Bank of Richmond, Virginia, February 1985). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
Conventional Mortgage Rate
Actual figure: 13.65

Forecaster (and page in source)	Date of Forecast	Forecast	Accuracy %
First Interstate Bank of Calif., p.16	11/19/84	13.28*	- 2.8
UCLA Business Forecasting Project, p. 22	12/13/84	12.70%	- 6.9
Wharton Econometric Forecasting Associates, p. 30	12/26/84	11.45	-16.1
Kent Economic and Development Institute, p. 32	1/1/85	13.25	- 2.9

Care should be exercised when interpreting the data. Some forecasters may have different definitions of the Conventional Mortgage Rate.

* Calculated as average of four quarterly data.

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	SCB, Blue pages
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36